

THE INDONESIAN QUARTERLY



VOL. III No. 2 JANUARY 1975

THE INDONESIAN QUARTERLY

CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES
Jakarta

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A periodical on contemporary life in Indonesia, dedicated to promote greater understanding of the Indonesian current situation and problems through articles which include documentation, information, studies and evaluations.

Subscription Office

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Jalan Tanah Abang III/27, Jakarta Pusat, Indonesia
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Subscription rate per year by ordinary mail US\$ 7.50, for students US\$ 5.00. Individual copies US\$ 2.00. Additional postage by air mail for ASEAN countries US\$ 1.50; Japan and Europe US\$ 2.00; Australia, New Zealand and Middle East US\$ 2.50; Africa, North and South America US\$ 3.00.

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A LOOK AT THE ECONOMY IN 1974

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On the eve of 1974, the world economic situation in general was in a state of turbulence. Many of the problems of the period were standard ones inherited from the preceding years, while others were new, and represented the consequences, whether logical or not, of policies designed to cope with earlier problems.

The energy crisis, the food crisis, the monetary crisis, the marked tendency for increased governmental control over national economies, and the multiple and complex consequences flowing from these factors, all combined to make 1974 a cheerless year for international economic relations.

In a narrower sphere, that of the Indonesian economy, the situation in 1974 was no less depressing than that of the world as a whole. As well as having to deal with the problems facing most other countries during a period of international economic turmoil, Indonesia had also to cope with a number of internal difficulties. Among the former type of problem were imported inflation, deteriorating purchasing power in relation to certain categories of imports, and difficulties in obtaining foreign loan capital, particularly on a concessional basis. Internal problems included the negative effect on prices of security disturbances, a slow-down in investment caused by the adoption of excessively tight anti-inflationary policies, a tendency for investments to be made without sufficient attention being paid to market conditions, and several non-economic factors which directly affected the economy.

Although the list of problems presented above is only a partial inventory of Indonesia's economic difficulties, the

problems and their ramifications — which will be discussed in some detail below — are each of such central significance that a discussion of them will serve to give a general picture of the overall situation in 1974. Because the international economic situation is more or less a given factor in Indonesian economics, it is discussed first in this essay. In the concluding section, we offer some conclusions and some tentative prognostications for 1975 on the basis of trends manifest during 1974.

I. THE INTERNATIONAL ECONOMY

1. *The Energy Crisis*

The energy crisis that began in late 1973 was basically the result of the interaction of two related phenomena — the sharp rise in oil prices, from US\$ 5.12 per barrel at the end of 1973 to US\$ 11.65 in early 1974, and the oil embargo imposed against the United States and the Netherlands by a number of Arab states.

The major oil-consuming states — primarily the USA, western Europe, and Japan — were unable to prevent the increase in oil prices, and the era of cheap oil thereby came to a close. This group of countries, however, refused to accept the price increases as a natural development, and, immediately following their announcement, sought by various means to force the oil-exporting countries, and particularly those which were members of OPEC, to bring the prices down again. There were thus two main forces (plus a third of those less-developed countries lacking their own oil resources are included) attempting to influence oil prices in mutually-opposed directions.

The United States sought to unite the industrialized oil-consuming countries on the basis of a common policy against

OPEC. However, these efforts failed to obtain the desired response from western Europe, as was evidenced by the decision of the EEC meeting held in Brussels on the 4th and 5th of February to maintain the freedom of each member-state to determine their own response to the energy crisis. This policy was reinforced by the Conference of Oil-consuming Nations held in Washington from the 11th to the 13th of February. The Conference, while succeeding in establishing a coordinating committee (from which France abstained), failed to produce consensus on a common policy. The range of feasible options open to Japan, for example, was extremely limited by virtue of that country's dependence upon the Arab states for some 80% of its oil supplies, a situation not very much worse than that also facing western Europe.

The differences between the United States and western Europe became increasingly pronounced and obvious, while the hopes of the United States regarding the establishment of some sort of united front of oil-consumers became increasingly remote. This situation remained static for quite a long time, because although the policy of the United States was not accepted by those states regarded as potential allies by the Americans, the U.S. Government remained reluctant to adjust its attitude and to accord more with the multilateralism of Japan and western Europe. On the contrary, President Ford persisted, as had his predecessor, in accusing the oil-exporting states of posing a threat to world peace and prosperity. At the world energy conference held in Detroit on the 23rd September, Ford went so far as to declare that sovereign states could not be dictated to by oil-pricing politics, a statement widely interpreted as a threat to the oil-exporting states. That statement served to further weaken Ford's position in the eyes of western Europeans and rendered the possibility of European-American cooperation on the oil issue even more remote.

Oil prices remain at the new level, and the United States has not yet found a way out of the impasse. The high degree

of dependence of the US economy, itself experiencing long-term erosion, upon the oil-exporting nations has become increasingly obvious. The response of the United States to its failure to overcome the external problem by means of internal adjustments has been to step up its threats, as was done, for example, by Kissinger in his interview with *Business Week*. American threats of military intervention in the Middle East were roundly condemned by most other countries involved in the oil problem, and the possibility of cooperation among the main oil-consumers became increasingly remote.

For their part, the oil-exporting countries, and particularly the members of OPEC, have not yet indicated any intention of acceding to the demands put forward by the importing states. The embargo has, of course, been lifted, and the problem now confronting the United States and the Netherlands is one of price. However, it is precisely on the issue of price that opinions are most in conflict. The hopes of industrial states for a return to the era of cheap oil are even more unrealistic than ever, as OPEC demonstrated when it acted to raise the price yet again by increasing royalties by as much as 2%. This decision was taken by OPEC during its meeting at Quito between 15 - 17 June, and served to increase the posted price to US\$ 11.76, a move followed on 1 October 1974 by a further increase of 3.5% after an OPEC meeting on 12 September in Vienna. Finally, the members of OPEC adopted the new policy of tying the price of oil to developments in the international monetary system so that the price would be allowed to rise and fall in accordance with prevailing market conditions.

Even from this brief chronological account of developments, it may be readily concluded that nowhere among the decisions taken so far by the states involved in the oil problem is there any indication that a mutually favourable solution is imminent. The United States and the other oil-consuming states insist that the prices must be reduced, while the exporting states maintain that the prevailing prices are fair and natural. And although there can be no doubt that oil prices are a

significant factor in the economic difficulties experienced by the United States and other industrial states, it is also true, as the oil-exporters have pointed out, that the life-style of the industrialized states themselves represents the main basic cause of the current situation.

Whatever the causes of the problem may be, the increased oil prices have served to produce very significant deficits in the trading balances of the oil-importing states and, correspondingly, marked surpluses for the exporting states. Estimates of these shifts are presented in Table 1 and 2, and it is in these statistics that we see the core of the problem which remains unsolved and which must be passed on without any significant improvements to 1975. Several of the leading oil-exporting states, notably Saudi Arabia and Iran, have realized benefits from oil sales of such magnitude as to far exceed the current capacities of those states for internal development. This means that the states in this enviable position must seek opportunities for investment abroad, and it is regrettable that their choice so far appears to be the purchase of certificates, such as shares in the industrialized states, and short-term deposits in European and American banks. Thus the oil crisis has not resulted in any significant transfer of wealth to the poorer countries, with the exception of small amounts which have been channeled through international financial agencies such as the Islamic Development Bank and the International Monetary Fund. And even these latter transfers have been made under terms less favourable than those offered by the industrial countries. Another way in which the oil-rich states have chosen to utilize their wealth is the rapid and large-scale acquisition of defence equipment, a policy which is of economic benefit only for the industrialized, weapons-exporting states.

Meanwhile, those less-developed countries which lack significant oil resources of their own have fallen to the bottom of the international ladder, and even those with sufficient oil to satisfy their own requirements are forced to pay increasing amounts in order to obtain necessary imports, the prices of which are continually rising.

TABLE 1

OIL-DERIVED INCOME OF SELECTED MAJOR OIL-EXPORTING COUNTRIES (in millions of US\$)

	1972	1973	1974 (estimated)
Saudi Arabia	3.100	5.300	29.500
Iran	2.400	4.000	21.000
Venezuela	1.948	+	10.600
Nigeria	1.174	2.000	9.232
Kuwait	1.657	1.950	9.000
Libya	1.600	+	9.000
Irak	909	1.382	7.000
Abu Dhabi	562	974	5.300
Aljazair	700	+	5.000

+ Data not available

(Source: *Le Monde*, 24 December 1974, p. 16).

TABLE 2

EXPENDITURE ON OIL IMPORTS OF SEVERAL STATES
(in millions of US\$)

	1972	1974
United States of America	3,9	24,0
Japan	3,9	18,0
West Germany	2,9	11,3
France	2,5	9,5
United Kingdom	2,4	8,5
Italy	0,5	3,0
Spain	0,7	2,5
Belgium and Luxembourg	0,7	2,0
Sweden	0,7	2,0
India	0,3	1,6
Denmark	0,4	1,3
Netherlands	0,5	1,3
Switzerland	0,4	1,0

(Source: *Time*, 6 January 1975, p. 18).

The overall trend does not yet give cause for any optimism, indeed, the opposite appears to be the case as the differences of opinion between the importing and the exporting states are becoming increasingly sharp. The reason for this impasse are clear: on the one side, the industrialized states, particularly the USA, regard the energy crisis as virtually identical with the high price of oil, while on the other side, the oil-exporting states see the crisis as primarily due to the luxurious life style of the industrialized states. Both sides are seeking to strengthen their relative positions by developing unity among their members. Among the industrialized states, consensus on the issues involved is rapidly developing, while the exporting states have agreed to freeze the price of oil and to tie it to international financial developments. All of these efforts represent preparatory steps taken in advance of the energy conference that the French are planning, a conference which will probably be dominated by the oil problem.

Throughout 1974, the only positive development in the energy crisis appear to have been the lifting of the embargo against the USA and the Netherlands; other key aspects of the crisis, such as the search for alternative sources of energy, restrictions on energy consumption, and the recycling of petro-dollars, continue to pose urgent problems and also to influence other elements in the economic landscape.

2. The food crisis

The food crisis is a truly chronic problem for which no adequate solution has yet been devised. Despite the repeated and bitter famines experienced by a number of countries, insufficient analysis of these experiences has been undertaken in order to design remedial programs.

This situation has persisted right up until the present, and we may gain an idea of the broad outlines of the problem from the following categorization of countries according to their position in the trading of foodstuffs.

The first category consists of net exporters, of which there are only a few. The United States is clearly prominent

in this group, with an export total in 1972 of 51,991,000 metric tons. Next comes Canada, with a figure of 18,994,000 in the same year, and then Australia, with 12,111,000. Apart from these three, there are several lesser exporters, such as Argentina, with 5,901,000 metric tons, South Africa, with 3,227,000, and Thailand, with 3,843,000. The other members of this category consist of exporters with a volume of much less than one million tons.

The second category comprises net importers which do not experience difficulties in paying for their food imports out of their international reserves. Included in this group are the European countries, including the USSR, Japan, and several of the major oil producers. The food imports of these countries run at a consistently high level, for example: the USSR — 8,558,000 metric tons; western Europe — 15,704,000; eastern Europe — 7,315,000;; and Japan — 15,537,000.

The third group is made up of countries that are net importers which do experience difficulties in financing food imports. These countries, at least potentially, face the threat of severe food shortages. Within this category are a majority of the countries of Asia and Africa, containing an estimated 2,578 million people, or some 67% of the world's population of about 3,860 million in 1973 — a population growing at the rate of approximately 2.4% per year.

The fourth, and last, group consists of those countries included in group three which are already clearly suffering serious food shortages. They include several states in South Asia such as India and Bangladesh, and some African states in the Sahel plateau area.

The above data is, apart from being somewhat out of date, incomplete in a statistical sense because it is based on trade figures which are not expressed in similar terms. Nevertheless, the above categorization does permit several useful observations to be made. One is that a very large proportion of total food production is situated on the north American continent, a fact of considerable significance from the point of view of distribution to the most needy states, such as India in South Asia. Another is that food importers are heavily concentrated in

Europe (including the USSR), an area which contains only 722 million people, or about 18.7% of total world population in 1973. This latter fact is understandable when we recall that the food trade is geared to the market mechanism and therefore allocates priority to those with effective purchasing power rather than to those who are most numerous and most in need.

The general state of the food crisis in 1974 was not significantly different than that which we have described as prevailing in 1972, although the situation has worsened due to the tendency for the United States to limit its exports and for other industrialized states to increase their purchases, trends which have driven food prices up significantly. Rice, for example, increased in price from US\$ 187 per long ton in 1972 to US\$ 234 at the beginning of 1974, and had reached US\$ 385 by the end of the year. Wheat prices exhibited a similar movement, from £ 31,60 per long ton at the end of 1971 to £ 66,75 in February 1974, and to £ 102,27 by the end of 1974. Rising food prices have made the situation faced by the poor countries much more difficult, not only because of their dwindling foreign reserves, but also because they have increasingly to compete for purchases with the rich industrial countries that enjoy certain political and economic preferences in their dealings with the leading food-exporting nations.

Several factors have been cited in explanation of the food crisis.

The weather obviously helps to determine the level of production, and several countries — including the USSR during the 1972 dry season, and those in the Sahel plateau area, which has suffered drought for more than five consecutive years now — have experienced severe setbacks in food production due to the vagaries of the weather. On the other hand, it cannot be denied that some countries have so far been unable to take full advantage of good weather, so that it would perhaps be incorrect to single out weather as the primary cause of the food crisis.

A second factor frequently discussed in this context is the energy crisis, dating from the OPEC decision to raise oil prices in October 1973. There can be no doubt that the increased

cost of oil will result in increases in the price of fertilizers which are necessary if agricultural productivity is to be improved. However, in view of the fact that the years prior to 1973 were not free of food shortages, the oil price increases since October 1973 cannot be regarded as the cause, let alone the originating cause, of the crisis.

Low productivity in the agricultural sectors of less-developed countries is a third factor, and one which, considering that food shortages mainly occur in such countries, is more readily convincing. It is a great pity that analyses of this phenomenon have not yet been conducted in sufficient detail or with the necessary level of sophistication, a fact which, together with the difficulties involved in financing, has prevented the development of satisfactory solutions in this area. The issue of low agricultural productivity needs to be emphasized because it involves international patterns of trade and their relationship with the distribution of control over wealth. Two aspects in particular demand consideration in this context. Firstly, there is the historical background, in which most of the countries now referred to as under-developed functioned, prior to their obtaining independence, as plantations, as producers of agricultural products, for the markets of those countries now referred to as developed, such as the United States and the countries of western Europe. This colonial phase in the historical experience of the less-developed countries exerted a powerful influence on the production of food in those countries, because, during that period, it was compulsory for them to plant export crops as well as, or frequently instead of, crops for internal consumption. In terms of economics, the post-independence period in these countries has not brought many fundamental changes. The newly-independent states continue to be dependent upon the export of traditional agricultural products, the market for which remains under the control of the developed countries. Consequently, the export earnings of the less-developed countries are limited and they must pay increasingly high prices for the goods they require from the developed countries. It is understandable that, as long as the less-developed remain in such

a situation, they will have no chance to improve their agricultural capacities.

The fourth factor, which should perhaps be described as a twin problem to the food crisis, is that of population. This problem derives primarily from the uneven distribution among countries of the world's population, and in particular from the fact that the greater part of the world population lives in areas experiencing food shortages and that the population in such areas is growing much faster than the population of the developed countries. North America, for example, generates 34.49% of world GNP and yet contains only 6.21% of total world population. Asia (excluding Japan), in contrast, produces only 9.35% of world GNP but contains 53.89% of total world population. Such figures make clear the reasons why the less-developed countries are not, or are not yet, capable of satisfying their own food requirements.

What must be done in a situation such as this is clear. First, agricultural productivity in the less-developed countries must be increased by means of the international transfer of capital from the rich to the poor, and the reordering of priorities within the countries experiencing food shortages. Second, the area of agriculturally-productive land must be extended, and careful consideration must be given to the adoption of alternative and higher-yielding crops. Also, austerity measures in countries such as the United States, whose people are accustomed to an unnecessarily high level of food consumption, could serve to reduce the dislocation of food production and distribution, particularly in times of crisis such as were experienced by a number of countries in 1974. Population growth also must be reduced as much as possible so as to accord with the rate of increase in food production — if food production exhibits zero growth, then population growth must be kept as near as possible to zero.

The year 1974, however, witnessed no significant attempts to bring such measures into effect. No firm commitments were produced by the 12th FAO session, held in Tokyo from the 16th to the 27th of September, except for the proposal (rejected by the United States and New Zealand) to set up a new body with greater authority than FAO. Similarly, the

World Food Conference staged in Rome (5-16 November) also failed to arrive at any concrete solutions, but rather opted to establish a World Food Council and to seek to make available some \$ 10 million (which amount may not even be realized). Conflict and disagreement continue to be the primary characteristics of such conferences, as, for example, was evidenced by the refusal of the USSR and the PRC to endorse the establishment of the World Food Council.

The food crisis, now approaching the chronic condition, thus continued through 1974 with no significant solutions yet in sight. Some improvement due to good weather conditions was observable, but the problems of distribution remain and, when related to the rate of growth and maldistribution of world population, appear, at least for the present, insoluble. Consequently, India, Bangladesh, Sri Langka, and the countries of the Sahel plateau, continue to suffer severe famine while others, such as the CPR and Indonesia, remain uneasy at the prospect of their continued dependency upon food imports.

3. The monetary crisis

As well as experiencing an energy crisis and a food crisis, the world economy in 1974 was further bedevilled by serious monetary difficulties which interacted with and exacerbated the existing problems. The collapse of the Bretton Woods system — clearly symbolized when the United States declared the dollar no longer convertible against gold and set all other currencies afloat — has not been followed by the construction of a new or improved system. The situation was worsened by the unilateral decisions made by many countries in defence of their own interests. Japan, for example, decided to devalue the Yen in early January 1974, from 200 to the US dollar to 300. Similar action was taken by France in protection of her interests, notably to support exports. International exchange stability was increasingly abandoned. The American dollar experienced continual fluctuation and its position deteriorated relative to other convertible currencies.

Meanwhile, the US dollar remained the international Unit of Account despite the fact that its significance had altered with the shifts in the United States position in world trade. The US balance of trade is estimated to have experienced a deficit in 1974 of some US\$ 3,000 million, the significance of which may be revealed by recalling that, in the preceding year, the US had a trade surplus of some US\$ 1,300 million. The contradiction of this situation was obvious. On the one hand, international trade remained dependent upon the dollar as the Unit of Account, while, on the other that currency had greatly deteriorated as Store of Value and also, therefore, had declined in significance as a Medium of Exchange. In view of the apparently unavoidable tendency for deficit budgets in the United States, no improvement in this situation is in sight. Lack of confidence in the role of the dollar was already manifested in the attitude adopted by a number of Arab states that had begun to replace the dollar with their own currencies as a Unit of Account.

The overall situation was not markedly different from that obtaining in 1973. One new element, however, was the extremely rapid change in the international traffic of funds resulting from the increases in the price of oil.

Time magazine (6 January 1975) cited estimates for the 1974 oil purchases of the major industrialized countries as follows: USA, \$ 24 billion; Japan, \$ 18 billion; West Germany, \$ 11.3 billion; and France, \$ 9.5 billion. These amounts represent very large increases over 1972, when the equivalent figures were: USA, \$ 3.9 billion; Japan, \$ 3.9 billion; West Germany, \$ 2.9 billion; and France, \$ 2.5 billion.

Several problems were posed by this enhanced flow of capital. The first was the inflationary impact exerted upon the oil-importing states due to the increased costs of production, while a second relates to the utilization of oil-generated funds by the major exporters.

The first problem, that of inflation among oil-importing countries, appeared in its preliminary phase to be an exacerbation of the inflationary pressures already experienced by those countries prior to the hike in oil prices. In subsequent

stages, however, the increased inflationary pressures proved impossible to restrict only to the oil-importers, but were carried to other countries as a component of export production costs.

The second problem, concerning the utilization of oil funds by the oil-exporters, assumed particular complexity due to the fact that the amounts involved were far in excess of the capacities of the countries involved to usefully invest at home. Despite large-scale spending on defence by the oil-exporters, liquidity remained an enormous problem, and resulted in the large scale purchase of stocks and shares in large companies, in the industrialized countries and the depositing of huge amounts on a short-term basis in banks, also in the industrialized countries.

Both of these problems, which arose in consequence of large-scale shifts in funds, tended to push inflation to ever higher levels. According to *Newsweek* (30 September 1974), the level of inflation over the preceding 12 months had risen by 6.9% in West Germany, 11.2% in the U.S.A., 20% in Italy, and 21.7% in Japan. It was presumably this high rate of inflation that prompted most governments to become increasingly convinced of the necessity to direct their monetary policies primarily at reducing the rate of inflation.

The high rates of inflation also forced workers to demand wage increases and to support such demands with strike action. Under the impact of increasing strikes, productivity declined and employers frequently were faced with little choice but to comply with worker demands. Because the same, or even a declining, level of productivity was rewarded with increased wages and salaries, inflationary trends were exacerbated.

Wage increases, rather than increasing the purchasing power of their recipients, served only to further accelerate an inflation caused by, among other things, governmental expenditure and increased prices of certain materials, such as oil.

In such ways, the monetary crisis was characterized by mutually-reinforcing negative aspects, as summarized below :

- a. industrial wage-increases lagged behind inflation rates, as that the purchasing power of workers declined;

- b. the sharp increases in the prices of certain materials, which should have resulted in increased purchasing power on the part of their producers, benefitted only a few states with relatively small populations. Meanwhile, the products of other, more densely-populated, countries dropped in price, with the overall result that the increased prices of those certain materials did not serve to enlarge the market. To make the situation worse, the item that experienced the sharpest price increase represented a basic material required by almost all sectors in the industrialized states, so that its influence over the profit assessments of companies, long accustomed to high profits as a result of cheap inputs of this item, was of great significance. Unfortunately, such industries have persisted in their desire to maintain high profit levels, and have sought to do this by increasing the prices of their products.
- c. Governments in industrialized countries such as the USA sought to repress and reduce inflation by means of increased taxes and higher interest rates, measures which directly and adversely affected private enterprise. But, on the other hand, such governments were not prepared to apply similar restrictions to their own operations, as was apparent in their budgetary deficits.

The combination of increased market prices and deteriorating consumer purchasing power resulted in a number of enterprises, including some very large companies, acting to reduce their activities and, in consequence, to restrict employment opportunities. This process was clearly observable by the end of 1974, and brought about the phenomenon of stagflation. The United States, for example, suffered an unemployment level of about 7.1% at the end of the year, while the West German level in the same period was 4.2%.

In terms of the prospects for future monetary policies, it may be anticipated that there will be a shift in orientation from anti-inflationary to anti-unemployment measures. If such a shift does indeed occur, then it will be understandable for the governments of industrialized states to seek to minimize imports of all items other than essential raw materials, a policy which would operate to further restrict the market

opportunities confronting developing countries. The implementation of such a policy would also exert strong influences on such aspects of monetary policies as import duties, taxes, and possibly even lead to devaluation in some cases.

In this situation, where many states are seeking to independently strengthen their own economic position by means of unilateral decisions taken within a world economy characterized by increasing economic interdependence, international bodies such as the IMF face serious restrictions and difficulties. The Group of 20 associated with the IMF is incapable of undertaking decisive initiatives under these conditions because it is itself hamstrung by differences of opinion and conflicts of interest which reflect the interests of the states represented in the Group. The impotence of the Group of 20 is further compounded by the fact that decisions taken by the Group are not necessarily acceptable to the member states. The problem was reflected in the meeting of the Group of 20 on the 14-15th January 1974. At that meeting, it was agreed that a more authoritative body should be establishing comprised of ministerial-level representatives. In our opinion, however, the establishment of yet another body on the basis of membership dominated by the rich industrial countries will not serve to overcome the weaknesses inherent in the prevailing international economic system.

The international economic system will not be susceptible to improvement as long as the world economy and its problems continue to be predominantly perceived in terms of the economic problems and interests of the industrialized countries.

Such, in brief, was the state of the international monetary crisis during 1974. The level of inflation rose continuously, ultimately bringing about a decline in economic activity. Monetary cooperation was increasingly replaced by individual states acting to protect their own national interests, a development diametrically opposed to the reality of increasing economic interdependence among states. Within this context, international monetary agencies struggled in vain to fulfill their supposed functions, although the reasons for their inability to effect any real improvements were not difficult to perceive.

II. THE INDONESIAN ECONOMY IN 1974

1. *The General Climate*

For Indonesia, 1974 got underway with a burst of inflation. From an estimated 27% at the close of 1973, the rate of inflation climbed to 47% in the first three months of 1974. This rapid increase was in part due to the influence of the international monetary situation, but was also considerably enhanced as a result of an internal security disruption, generally referred to as the "15th of January Affair", which caused significant damage to market facilities.

The "15th January Affair" must be taken into account when considering Indonesia's economic situation during 1974. The issues that attracted most attention during the period leading up to the "Affair" itself were primarily those related to the question of the relative economic strength of three categories of businesses: Foreign, National *non-Pribumi* (non-Indigenous), and National *Pribumi* (Indigenous). The Government moved to tackle these issues on 22 January with the announcement of a new policy that included provisions for both the Indonesianization of foreign business and the extension of control over *non-pribumi* business. The policy specifically declared that:

- enterprises operating under the provisions of the Foreign Investment Laws must enter into joint ventures and that *pribumi* businesses must receive highest priority in the process of seeking a local partner for such joint ventures. Ownership within joint ventures should be divided on the basis of 51% for the Indonesian partner and 49% for the foreigner, and this provision was deemed to apply to all joint ventures irrespective of the stage of their development. In the case of joint enterprises between foreign and Indonesian *non-pribumi* interests, a minimum of 50% of ownership must be transferred to *pribumi* businessmen.
- in relation to internal, as distinct from foreign, investment, state bank investment credits henceforth only be allocated

to *pribumi* enterprise, while at least 50% ownership in all existing businesses must be transferred into the hands of *pribumi* entrepreneurs.

In terms of its purpose — to distribute business ownership more equitably — the policy must be accepted as a positive step. The question is, however, to what extent the policy can be successfully implemented without adversely affecting other necessary policy concerns, such as the intensification of investment in order to create more employment opportunities and to reduce dependency upon imports. The policy appears to be to some extent in conflict with preceding Government policies designed to increase and diversify Indonesia's production capabilities. Pursuit of this latter course clearly demands the participation of skilled and capable entrepreneurs, of whom there are not many in Indonesia outside of the foreign and *non-pribumi* sectors. If *non-pribumi* businessmen were prepared to cooperate with their *pribumi* counterparts, then the problem would not be so difficult. However, in view of past experience, and the general attitude towards business manifested by the *non-pribumi* businessmen, the prospects of establishing cooperation between the two groups, at least on the basis of the conditions laid down by the Government, appear to be rather slim.

The implementation of the new policy is further hampered by the inadequacy of the existing infrastructure when considered against the demands inherent in the proposed transfer of ownership. Despite sustained efforts, the capital market — both at the time of the announcement of the policy and now — in Indonesia is extremely limited in scope, a task as complex as the discriminative sale of shares apparently envisaged by the Government would almost certainly be beyond its capabilities. On the basis of such considerations, it is understandable that the new policy faces serious obstacles to its implementation, perhaps not the least of which is the reluctance to participate which it has given rise to in foreign and *non-pribumi* business circles.

The announcement of, and the reactions to, the new policy on *pribumi* participation in economic enterprises took place against the backdrop of sharp increases in the rate of inflation. On the 9th April, the Government announced a number of restrictive anti-inflationary measures. Referred to collectively as the "9th April Packet", these measures provided for:

- increases in rates of interest on bank deposits, from 6% to 9% per annum for deposits of 3 months duration, and from 15% to 18% for 12 months. Provision was also made for the introduction of 18 and 24 month deposit terms, with interest at 24% and 30% respectively.
- increases in interest rates on bank loans and credits. Credits for investments in categories III and IV increased from 12% to 15% per annum, while the interest on short term credits went up 3% from the old level of 15% per annum for such sectors as general transport, the import and distribution of controlled items, and the production and export of supported export items. The interest rate on loans in other production sectors and for internal trade in general rose from 18% to 21% per annum, while the rates on various other credits — which had previously varied between 21% and 24% — were fixed at 24%.
- a limitation on capital originating from outside the country, in the form of a requirement that the borrower deposit 30% of the amount borrowed abroad with the Bank of Indonesia without interest.
- a credit limitation restricting borrowers to no more than 25% of any credit obtained from a banking institution during 1973.

One direct result of the April measures was the disruption of the prevailing balance of liquidity. On the one side, financial institutions, particularly banks, experienced an excess of liquidity caused by the sharp increase in deposits and the decline of operational activities. On the other side,

enterprises outside the banking sphere suffered illiquidity to a degree that threatened continued economic viability. Both these sets of problems — i.e., savings and investment — will be considered in more detail in a different section of this paper.

This situation of unbalanced liquidity prevailed throughout the 1974 financial year. Only at the very end of the year, specifically, on the 28th December, were steps taken by the Government to reduce the rates of interest on bank deposits, a decision which, it is suggested, needs to be followed by efforts to reduce interest on bank loans and to reopen investment credit facilities to national *non-pribumi* entrepreneurs. These latter two policy adjustments are necessary in order to enable a substantial increase in investment, although they would have to be implemented without reducing the urgency of the need to distribute the ownership of production units more equitably among national entrepreneurs, both *pribumi* and *non-pribumi*.

Thus, in broad outline, was the general economic climate prevailing in Indonesia during 1974. The beginning of the year was characterized by a high level of inflation, while the final nine months were, in contrast, heavily influenced by a liquidity shortage in the non-bank sector. The steps taken on the 25th December, although intended to loosen the restraints imposed by the "9th April Packet", may be regarded as having been taken too late, although their full effects will not, of course, be apparent until some stage during 1975. Obviously internal developments need to be assessed in conjunction with a study of the effects of external factors which, either directly or indirectly, necessarily represent determining elements in the overall economic climate.

On the basis of this general account of the economic climate in 1974, this essay will now proceed to consider several particularly significant aspects of the Indonesian economy in 1974.

2. *Investment*

In the broadest sense of the word, "investment" is the utilization of current wealth for future production. In terms

of the sources of investment capital, investment includes new investment and reinvestment by both Government and private enterprise. The following discussion will be limited to investment by private enterprise as that form of investment most highly susceptible to the prevailing economic climate as described above.

Investment within the framework of provisions for Internal Investment reached an estimated value of Rp. 1,317,32 billion during the first quarter of 1974, and rose to Rp. 1,452,13 billion by the end of October, an increase of some Rp. 134,81 billion, or only 43.34% of the increase recorded during the preceding 7-month period (Rp. 310,99 billion). This tendency for a marked reduction in the rate of investment was also manifest in the figures for Foreign Investment during the same period. Between the beginning of April and the end of October, the value of approved foreign investment increased by Rp. 215,34 billion, or some 85% of the increase during the preceding 7 months (Rp. 253,55 billion). By far the largest increase occurred in the industrial sector, which accounted for 72.20% of the total increase in internal investment and 70% of the increase in foreign investment. Sectors exhibiting the second largest increase in investment were forestry, for internal investment, and hotels and tourism, for foreign investment.

This pattern of investment distribution is of significance for any attempt to interpret the high rate of inflation prior to April, which, in our opinion, was due not only to the influences of the international monetary situation and internal security disruptions, but also to a pattern of production within Indonesia that was not sufficiently based upon market realities.

The dynamics of this situation may be demonstrated by comparing the amount of capital invested in a particular sector with the contribution of that sector to the National Product. The industrial sector, for example, absorbed Rp. 196,19 billion (both internal and foreign investment) in 1970, and this figure had increased by 479% as of the end of 1973. During that period, the industrial sector absorbed 61.75% of all new investment, yet the proportional contribution of this sector to

National Income declined from 9.0% in 1970 to 8.9% in 1973. A similar development was manifest during the same period in the hotel and tourism sector, where investment increased by about 615% while the proportional contribution to National Income deteriorated from 5.4% to 4.7%. In both these important examples, the flow of investment funds into the production process was not, or, at least, not during the period considered, matched by a proportionate level of output, in the form of products reaching the market. This phenomenon may perhaps be explicable in terms of excessive investment having been made in certain sectors in comparison with the demand for the products of those sectors.

A given imbalance between the amount of wealth invested into the production process and the value of the products generated and placed on the market will, assuming that the volume of money in circulation remains constant, cause inflation at a more or less predictable level. In any attempt to restrain inflation, this fact must be taken into account and allowances made for it in such a way that anti-inflationary policies be designed so as not to sacrifice production. Such policies need to be directed only against carefully selected targets. This is what should have been done in early April 1973, instead of applying blanket restrictions that, as is now obvious in retrospect, resulted in an overall decline in productive activities.

Another aspect which demands attention in connection with investment is the marked reduction in the rate of growth of internal investment. As has been noted above, internal investment during the seven month period after April increased by only 43.34% of the increase achieved during the preceding seven months. The 9th April regulations undoubtedly accounted for some of this reduction in the rate of expansion of investment, however, in comparison with the rate of expansion of foreign investment, internal investment suffered a much more severe setback. In our opinion, this phenomenon was closely related to the 22 January ban on the provision of investment credit to all except *pribumi* enterprises. That ban had the effect of severely inhibiting the most potentially

dynamic members of the contemporary Indonesian business community, at a time (which has not yet ended) when there were insufficient capable *pribumi* entrepreneurs. This factor must be taken into account as one of the causes of the post-April decline in the rate of growth of internal investment.

Meanwhile, production in general remained oriented towards exports and import substitution, consisting of the provision of raw materials for export and the finishing and/or assembling of import substitutes. In other words, internal investment had not yet been directed towards the processing of materials within the country, but instead remained oriented in the opposite direction, towards the increased utilization of imports. That such an orientation serves to seriously weaken Indonesia's position in international trade has already been conclusively demonstrated — on the one hand, the export of raw materials is highly dependent upon decisions taken by the importer, while on the other, the import of partly-finished goods for final processing within Indonesia is closely tied to the economic policies of the exporter.

This situation needs to be changed, and, with a population of some 130 million people, Indonesia's potential internal market is sufficiently large to make the necessary changes feasible. Investors should be encouraged to direct their capital into the raw-material-processing sector of Indonesian industry, a course which appears all the more desirable if it is recalled that policies of import substitution invariably operate to the disadvantage of the consumer because the substitute always costs more than the import — which fact explains the vehemence with which Indonesian textile and tyre producers condemned the decision to permit limited imports of those items.

There are, of course, other problems related to the investment situation, such as the "Indonesianization" of jobs held by foreigners, and the need to evaluate the effects of subsidies (it is not even clear whether they are beneficial or not!). Such problems are of no less importance than those considered above, however, on the basis of those problems which we have discussed, there is sufficient justification for the following conclusion: the rate of expansion of investment during 1974

was much less than the rate which had been achieved in the preceding period, and this reduction was directly linked to the Government decisions of 22nd January and 9th April, both of which sets of regulations served to severly limit the opportunities available to Indonesian entrepreneurs. Now that the effects of those regulations are understood, a reassessment of policy would be appropriate.

3. *Savings*

Saving, consumption, and investment represent alternatives in the utilization of income. Saving may take the form of hoarding valuable items, such as jewelry or cash, or it may be conducted by means of depositing income with financial institutions such as banks. From the point of view of making wealth available for investment, savings deposited in financial institutions are clearly more useful than saving hoarded. (For the purposes of the following discussion, the term "savings" will be limited to money 'saved' in financial institutions). However, if the level of interest on savings is equal or approximately the same as the rate of return on investment, saving may be detrimental to investment. Under such conditions savings will absorb not only excess wealth, but also wealth which otherwise would have been invested in the production process. The consequences of the 9th April regulations are, in this context, open to further analysis.

The predominant forms of saving in Indonesia are: Time Deposits (*Deposito Berjangka*); National Development Savings Scheme (*Tabungan Pembangunan Nasional*); Insurance Savings Scheme (*Tabungan Asuransi Berjangka*); and Certificates of Deposits (*Sertifikat Deposito*) issued by banking institutions. The relative position of each of these forms is indicated in Table 3 below:

As may be observed in Table 3, 24 month time deposits at 30% per annum interest came, within the 9 month period under consideration, to comprise 75.40% of total fixed-term deposits and 50.70% of the total of the three forms of savings. Details of depositors are not publicly available, but there would

TABLE 3

RELATIVE POSITIONS OF VARIOUS OF SAVING
(millions of rupiah)

	end of March	end of December
Fixed-term deposits*	143.903	238.641
Less than 3 months	(1.229)	(1.385)
3 months	(3.621)	(3.708)
6 months	(9.331)	(8.298)
12 months	(129.722)	(37.226)
18 months	—	(8.090)
24 months	—	(179.934)
Tabanas and Taska**	36.855	43.272
Sertifikat Deposito***	56.753	72.953
 Total	 237.511	 354.866

* Only for Government-owned Banks

** For Government-owned Banks and some Private Banks

*** For Government-owned and Foreign Banks

(Source: Bank Indonesia, *Laporan Mingguan* No. 888).

appear to be little reason to doubt that the primary motive for depositing funds on fixed-terms was to obtain interest. This marked rate of increase in deposits served to siphon off liquidity, however, this phenomenon was not counterbalanced by the provision of credit. Between the end of March and the end of December, the total amount of credit extended by banks other than the Bank of Indonesia increased from Rp. 426.182 million to Rp. 557.718 million, an increase of Rp. 131.536 million, or only Rp. 14.181 million more than the increase in savings deposited in banks during the same period. In this situation, financial institutions necessarily faced difficulties due to both their excess liquidity and the high cost of money,

unless, of course, they were the recipients of subsidies from the Government or the Bank of Indonesia. At the same time, the society as a whole suffered from a shortage of liquid assets for both consumption and investment purposes.

4. *Exports and Imports*

As was mentioned at the beginning of this essay, the Indonesian economy in 1974 remained dependent upon foreign trade. The major exports consisted of raw materials, while imports were mainly finished or partly-finished consumer goods.

In view of the 1974 trading surplus of some US\$ 3.280.896.000, the general situation may be classified as positive. However, a closer examination reveals that the larger part of this surplus (71.83%) was derived from the export of crude oil, exports of which increased by US\$ 2.874.788.000 over 1973. If we exclude crude oil earnings from the picture, Indonesia suffered a deficit of US\$ 1.302.272.000, which is equivalent to 72.45% of total export earnings excluding oil. The detailed position may be explained as follows:

- a. Timber exports, which made up 35.42% of total exports excluding oil, increased in value by an absolute amount of US\$ 111.370.000 in comparison with 1973. The overall trend in the timber industry, however, was not encouraging as the increase in absolute value would appear to indicate. In January, for example, timber exports were valued at US\$ 81.293.000, but this figure fell to US\$ 67.527.000 for June, and by November had dropped to only US\$ 32.335.000, or about 40% of the January value. At the same time as exports were declining, unsold stocks of timber were building up in such large quantities as to pose serious problems for timber enterprises.
- b. Exports of rubber, the third largest export item after crude oil and timber, were valued at US\$ 467.871.000 for 1974, representing an increase of US\$ 73.225.000 over the

previous year. However, as a proportion of total non-oil exports, rubber exports declined from 25.40% in 1973 to 23.85% in 1974, the main cause for which appears to have been the deteriorating position of smallholders in the rubber industry. Export values dropped steadily throughout 1974, from US\$ 38.986.000 in January, to US\$ 33.848.000 in June, and to only US\$ 17.804.000, or 45.67% of the January figure, in November.

- c. Exports of pepper, tobacco, and dried skins each registered an absolute decline in volume in 1974 in comparison with 1973.

There were several reasons for this general trend for non-oil exports to decline during 1974. The first was the Government's decision to ban or limit the export of specific commodities. Another was the reduction of prices on the international market for all export products except oil, tin, black pepper, and palm oil. The price of timber in Tokyo, for example, deteriorated from Yen 30.000 per cubic metre at the end of 1973, to Yen 28.500 in January 1974 and, after fluctuating, throughout the year, stood at Yen 27.500 at the close of 1974. The drop in the price of plywood was even sharper, with a fall of 33% occurring during 1974. The price of rubber exhibited a more or less similar trend, so that at the end of the year the price was about 50% of what it had been at the beginning.

Government pricing policies further complicated the situation for exporters, as price adjustments frequently lagged behind price changes on the international market. Yet another cause of the deteriorating export situation undoubtedly lay in the quality of export commodities, a factor that was particularly obvious in connection with food exports.

An examination of the causes of Indonesia's apparently limited capacity to prevent the deterioration of non-oil exports is probably of more value than a summary account of the factors underlying price reductions on the international market, many

of which are readily explicable in terms of the energy crisis. Among the main factors affecting Indonesia's capacity to compete in international trade may be listed :

- a. The absence of alternative uses within the country for the export commodities concerned means that the products are of no utility if not exported. In this connection, we wish to emphasize once again the need to reorient production so as to maximize the internal utilization of Indonesian resources, at least by taking account of market potentialities within the country.
- b. The degree of Indonesian dependence upon outside forces is evident in the limited market with which it deals. Of total Indonesian exports during the period from January to August 1974, for example, no less than 74% went to the United States and Japan. In other words, Indonesia grants those two countries oligopolistic control over her export market, with the result that the fate of Indonesian exports depends to a large extent upon the economic conditions obtaining in the importing countries.
- c. The planning of production of export commodities does not yet take market developments abroad into consideration. Increases in the prices of certain commodities are frequently followed by large-scale increases in the production and export of those commodities, thereby enabling the importing countries to build up reserves. This process was apparent in the timber and rubber sectors and, in both cases, resulted in lower prices.

Imports increased in value during 1974 by US\$ 522.059.000, or about 20.25% of total imports during 1973. Commodities imported consisted of consumption goods, or finished and part-finished goods, including knocked-down machinery and equipment for local assembly. In our opinion, the most important aspect in connection with imports is the need to

adjust imports to accord with the standard of living prevailing among the bulk of the population, a subject which has received a lot of attention in relation with proposals for simpler, or more austere, living. Without wishing to detract in any way from the importance of the need to live more simply, it must also be understood that policies designed to protect Indonesian industry from foreign competition should not be maintained if they prove to be ineffective in supplying the society with cheaper goods. There are undoubtedly a number of types of products that are currently imported and which could be produced locally at reasonably competitive prices, but the process of determining just which types of products do belong to this category necessarily involves some very careful calculations.

Thus, in brief, was the general foreign trade situation experienced by Indonesia in 1974. In the export sector, dependency upon exports of crude oil continued to increase. The currently high degree of Indonesian dependency upon oil exports must be reduced in view of the fact that the prevailing strong position of oil on the international market can not possibly be maintained, particularly in the long run. The 1974 energy crisis served as a powerful stimulant to efforts to discover new oil deposits, and, as a result, known reserves of oil have been increasing. The People's Republic of China is beginning to emerge as a potentially large-scale oil producer, a development which will undoubtedly affect the relative positions of the other major producers such as those united in OPEC. Alternative sources of energy are bound to develop in the not too distant future, and they will undermine the currently predominant position of oil.

Yet again, it needs to be stressed that economic policies must take local market potentialities and needs fully into account, and this applies also to policies relating to the oil sector. It would be to Indonesia's advantage to increase local consumption of oil to support increased local industry, rather than to continue to merely export oil. A policy of continued

excessive reliance upon oil exports leaves the country open to the possible recurrence of the situation experienced in late 1973, a possibility that appears to be becoming increasingly real as the production costs of imports, such as rice, wheat, and sugar, increase faster than the price of oil.

5. *Rice: A Special Problem*

Because it is the staple food of most Indonesians, rice necessarily occupies a special position in trade in general, and in the food trade in particular. Both the demand for rice, and the amount produced, remain virtually inelastic. Representing some 40% of the annual requirement for basic goods, rice understandably exercises a powerful influence over market stability, which is why the Government exercises tight control over this commodity by such means as direct intervention in the market process in order to influence price and supply.

The problem of rice is complicated by the fact that local production is not yet sufficient to fulfill local requirements, so that imports of rice are necessary although the price of imported rice is much higher than the local retail price. At least on the surface, the import of relatively expensive rice is to the disadvantage of local rice farmers. This aspect demands further analysis in view of its significance in a country where the great majority of the people live in rural areas and make their living by growing food — primarily rice.

We commence our discussion of this aspect of the rice problem by calculating the average price of rice imported into Indonesia. In the period between the beginning of January and the end of August 1974, rice imports totalled 848,000 tons. For the purposes of this exercise, it is assumed that the purchase price in any particular month was the same as the ruling price during that month, so that, for each purchase, the close of the contract coincided with the registration of the import. Calculated on this basis, purchases during the 8 months under consideration were as presented in Table 4 below:

TABLE 4

TOTAL RICE IMPORTS AND RICE PRICES, JANUARY - AUGUST 1974

Month	Total Imports*	Prices** (US\$ ton fob) Bangkok
January	84,2	234
February	84,1	583
March	77,6	631
April	63,4	605
May	150,7	595
June	160,0	535
July	160,9	495
August	67,5	502

Sources: * Central Bureau of Statistics, *Indikator Ekonomi*, No. 11/74

** Bank of Indonesia, *Laporan Mingguan*, No. 888

From the data contained in Table 4, the average price of imported rice during the period under consideration may be calculated at approximately US\$ 525 per ton f.o.b. Bangkok. Converted to Rupiah, the price becomes Rp. 218 per kilogram. Assuming that transport, insurance, handling, and distribution costs amounted to about 10% of the total cost, then the lowest retail price should have been about Rp. 240 per kilogram. On the basis of these figures, the following calculations may be made:

- a. If the price at which Indonesian farmers sold their rice is assumed to be the same as that at which Bulog (*Biro Urusan Logistik*, the Government agency responsible for, among other things, the overall management of the rice market) bought it, i.e.: Rp. 83.60 per kg (1 kg of rice = 2 kg paddy), then each kilogram of domestically-produced rice was undervalued by some Rp. 156,40. It is estimated that rice production during the period concerned totalled 14 million tons (50% × 28 million tons of paddy), so that

total domestic rice produced was undervalued by Rp. 2.189,6 billion.

- b. Assuming that farmers consumed rice in the same quantities as other groups in the population, then 65% of total consumption was accounted for by the farming community. Total consumption for the period is estimated to have been 15 million tons, 65% of which comes to 9,75 million tons. The amount of domestic rice that entered the market was therefore 4,25 million tons, which amount was undervalued by Rp. 664,7 billion. Government fertilizer subsidies to farmers must also be taken into account in this context. At an estimated Rp. 146 per kg subsidy for fertilizer, and assuming that the production of 10 kg of rice requires 1 kg of fertilizer, the production of 14 million tons of rice would have required 1,4 million tons of fertilizer, involving a total Government subsidy of Rp. 204,4 billion. On the basis of these estimates, it may be concluded that Indonesian farmers subsidized non-farmer rice consumers by as much as Rp. 460,3 billion during the eight-month period concerned.
- c. However, to raise the local rice price to the same level as the international price would entail an increase of 187%, which would increase the cost of living by approximately $40\% \times 187\% = 74,8\%$. A price increase of such a magnitude could not be localized to rice alone, but would necessarily spread to most other commodities, with the result that the group likely to be hit the hardest in the end would be the farmers themselves.

The problem requires much more sustained examination, but it is sufficiently apparent at this stage that improvements in the position of farmers as a group require the provision of subsidies other than, and as well as, the fertilizer subsidy. Such subsidies have, in essence, already been introduced by means of special programmes such as INPRES, so that what remains is to reassess the forms, distribution, and inter-

disciplinary coordination required for the determination of the most appropriate subsidies.

Another problem relating to the provision of adequate rice supplies is that posed by the uncertainty that characterizes the volume of the international rice trade. Although little difficulty was encountered in fulfilling contractual obligations during 1974, the bitter experiences of 1972 should not be forgotten. The main lesson to be drawn from the 1972 situation is that domestic rice production must be increased, at least to the point where it is sufficient to satisfy domestic consumption requirements.

6. *Other Factors.*

The following observations are intended to round out the general picture presented in this article of the economy in 1974 and some of its main problem areas.

Firstly, the issue of Foreign Aid, which, in the years before 1974, involved primarily aid provided by the IGGI (Inter-Governmental Group on Indonesia). The volume of aid to be received by the Government from the IGGI is usually determined prior to the commencement of each financial year. However, no such clear commitment was made during 1974, and the annual IGGI session, normally held each December, did not take place.

There appear to be four major possible explanations for the apparent cessation of this cooperative exercise. The financial capacity of the IGGI member states to provide aid was reduced because of the difficulties they faced during the energy crisis. Secondly, IGGI members possibly felt that, because of Indonesia's increased earnings from oil exports, Indonesia was in a much stronger financial position than had been the case during previous years (this assessment presumably was one reason for the decision taken by the USA to withdraw all preferences previously extended to OPEC members, including Indonesia). Thirdly, the political atmosphere within Indonesia, which strongly favoured greater

economic independence, and which reached its peak during late 1973 and early 1974. Finally, realization of the need for Indonesia to seek wider opportunities for economic cooperation with countries other than the IGGI members, as manifested in the preliminary approaches made to the Soviet Union, the states of eastern Europe, and the major oil producers — particularly those united in OPEC.

There is no way of determining which of these four factors was in fact the most important. What is clear is that Indonesia's economic plans for 1975/1976 anticipate the continued inflow of foreign aid funds, a fact which would appear to indicate that the lapse in cooperation through the IGGI in 1974 was not, at least from the Indonesian side, due to acceptance of the view that Indonesia's financial situation was such as to no longer require foreign assistance. Because Indonesia does still stand in need of foreign economic assistance, a more flexible approach to the issue is required in order to ensure that Indonesia obtains maximum benefits from aid while simultaneously avoiding becoming dependent upon any particular group of donor states.

Non-economic factors should not be overlooked in any assessment of the economy in 1974. Prominent among those non-economic factors demanding attention is what may be referred to as consumer irrationalism, a phenomenon which is readily exploitable by business. A simple example of such irrationality is the tendency to evaluate an item purely on the basis of its cost. Although this problem has received attention in Indonesia, much more serious consideration is required before it can be solved. It is extremely difficult to implement policies designed to bring about a simpler style of living without first altering the prevailing pattern of production. A more rational production pattern would operate to facilitate the adoption of simpler life styles.

A complex of activities that may be collectively designated as "non-authority relationships" represents a second non-economic factor characteristic of the Indonesian economy in 1974. Although convincing factual evidence of such behaviour is difficult to obtain, stories and rumours concerning the illicit

obtaining of facilities (such as various licences, permits, credit approvals etc.), both during 1974 and since, have become so widespread and numerous as to demand that serious and intensive research be conducted in order to ascertain the extent and nature of this phenomena.

Insofar as such behaviour does occur, it exerts a powerful distorting influence upon policy implementation. Such practices necessarily involve the active participation of at least some of the authorities in each sector concerned, so that policies designed to eradicate these practices must necessarily allocate priority to the enhancement of effective control over the state apparatus. The abuse of authority by public officials can, if it becomes sufficiently widespread, render government plans meaningless. Clear policies supported by unequivocal administrative and legal action are necessary in dealing with this problem.

III. CONCLUSIONS

The world economy is currently experiencing serious and fundamental problems, as reflected in the various chronic crises of the past few years. The monetary crisis that commenced in 1971 continued unabated throughout 1974. Most countries, and especially the rich ones, continued to seek unilateral solutions to their respective (usually common) problems despite the increasingly obvious reality of world economic interdependence. This uncertain monetary situation was rendered even more unstable by the many new problems resulting from the large scale transfer of funds from the major oil-consumers to several of the major oil-exporters. The huge amounts of money involved in this transfer was far in excess of what could be usefully absorbed within the oil-exporting nations concerned, giving rise to yet another major problem in the form of massive and free-floating purchasing power. The outcome of all this was increased monetary instability and aggravated inflation.

The responses of most governments to the powerful inflationary pressures of early 1974 included efforts to enforce certain economies, to increase taxes, and to raise interest rates. However, by the time these policies came into force, the situation had altered in such a way as to distort the effects of these measures, so that their main impact was to reduce productive activity. The drop in production and work opportunities was followed by a trend towards stagflation, which became increasingly difficult to influence.

These developments in the international economy exerted permeating influences upon all countries, including Indonesia. The high rate of inflation in Indonesia, and the difficulties experienced in the export sector (with the exception of oil), were, to some significant degree, the result of, respectively, the international monetary situation and the narrowing of international market opportunities. Although Indonesia's overall export trade increased sharply in 1974, the increase was largely due to oil exports, while most other export commodities exhibited a marked tendency to decline in relative significance.

Several internal factors operated within Indonesia during the year to obstruct the expansion of production. Among the more important of these were certain provisions included in the measures announced by the Government on the 22nd January and the 9th April. Investment in the private sector slowed down and liquid assets were sucked back into banks and other financial institutions. Liquidity from abroad underwent a corresponding decline. During 1974, therefore, the economy not only experienced serious difficulties as a result of external developments, but also suffered as a consequence of decisions taken within the country, and which proved to be detrimental to wider growth prospects.

It would therefore perhaps not be excessively pessimistic to describe 1974 as an unfortunate year for the development of the world economy. Moreover, none of the currently prevailing trends appear to carry much hope for economic revival. The severe unemployment experienced in many countries will probably force their governments to switch the emphasis in economic policy from anti-inflation to anti-unemployment,

which will probably result in increasingly protectionist measures requiring, among other things, increasingly tight controls over imports. In the face of such powerful trends, international agencies will find it increasingly difficult to establish the foundations for the rapidly-emerging world economy.

As far as Indonesia is concerned, the trends described above will exacerbate and increase the economic difficulties already facing the country, and this will particularly be the case if the prevailing reliance upon the export of raw materials is not reduced. The urgency of the need to discover and develop potential markets within the country for the products and resources hitherto exported, and for those yet to be discovered, is becoming increasingly pronounced. The fulfillment of this need calls for the development within Indonesia of the range of skills required to undertake the processing of Indonesian resources into finished products.

NOTES :

The statistics and other data used in this article were, unless otherwise indicated, derived from the following sources:

1. *Ringkasan Peristiwa*, a fortnightly publication from the Centre for Strategic and International Studies, Jakarta.
2. *Laporan Mingguan*, No. 888, Bank of Indonesia.
3. *Statistik Ekonomi-Keuangan Indonesia*, No. 12, Year VII, Bank of Indonesia.
4. *Indikator Ekonomi*, No. 11/74, Central Bureau of Statistics, Jakarta.

INTERNATIONAL ECONOMY INCLUDING PROBLEMS OF NATURAL RESOURCES

Daed JOESOEF

I wonder whether it is still correct to use the term "international economy" at present now that the major economic fact of the past decade has been the replacement of the older "factors-of-production" economies by "knowledge" economies. In this last mentioned economies, thanks to the progress of technology, computer and information processing constitute its distinctive industries, knowledge worker its typical employee, research institute at the industrial centres its engine of progress and innovation — a function that used to be fulfilled exclusively by similar institutes in the universities — while the urban metropolis, markedly different from the older industrial-commercial "city", its distinctive human habitat¹.

The world economy did not come into being through the efforts of men of the classical explorer-type such as Columbus, Livingstone and Captain Cook, nor of men of the colonial officer type like Raffles and Daendels, or the modern industrialist-financier type like Krupp, Morgan, Rockefeller, etc., but through the work of *knowledge workers*. Unlike the manual workers of the 19th century and earlier, the knowledge workers of today are not content with work that merely produces livelihood. They have other ambitions that they try to achieve through their intellectual activities, i.e. to be the

¹ Cf. Irving Kristol, "The new era of innovation", FORTUNE, February 1969, p. 189. See also Peter F. Drucker, THE AGE OF DISCONTINUITY: GUIDELINES TO OUR CHANGING SOCIETY (New York: Harper & Row).

leaders in almost all spheres of life. They are in a position to do so since they are all active and working in virtually all branches of productive activities, in government (civilian as well as military), in the private sector (business, journalism, etc.) and in mass organizations (political parties, popular movements, etc.). It is from them that a "new nationalism" has emerged, which is the idea that a nation's prosperity is no longer a function of a limited horizontal factor such as the size of the territory of a state as used to be assumed under the medieval peasant's way of thinking, which in the past often led to wars, but depends upon an unlimited vertical factor, namely, technological development.

It is through this very conversion of the "factors-of-production" economies into the "knowledge" economies that technological development has in turn brought about a change from the older "international economy" to a "world economy". As a result of this change trade among nations is no more a matter of the complementary provision of goods and services in which, as suggested generally by economic textbooks, Britain sends textiles to Portugal and gets Portuguese wine in return. But oddly enough this principle of complementary is still taught today at economic faculties as being "the rationale" of "the international trade". There seems to be too little awareness that trade grows most vigorously, in volume as well as in value, between nations having more or less the same level of technical civilization and that are converging in their economic and industrial systems. Thus America finds it very difficult, for instance, to trade with the "complementary" economy of India, but very easy to trade with the "parallel" economy of Canada². A similar difficulty would be encountered in the trade relations between the other developed countries like Japan, Australia and the West European countries on the one hand and the developing nations of Africa, Asia and Latin America on the other. Thus Prof. Saeki did not hesitate to point out, one year ago, that "..... the relationship of mutual interdependence between the advanced democratic industrial nations and the developing nations is drastically

² Irving Kristol, *op. cit.*, p. 190

smaller than the one which exist among the advanced, developed nations.....³.

On the other hand, one of the consequences of the "new nationalism" mentioned above is the formation, in the ever growing world economy, of giant enterprises commonly known as "multinational corporations" (MNC). The director of a MNC no longer represents the interests of the country he belongs to but those of the company he works for, whereas these two kinds of interest are not always in harmony with each other and sometimes are even opposed to each other. It is not surprising therefore that even in the developed countries the existence of MNC's often gives rise to political disputes⁴.

The business practice of the MNC, as Galbraith⁵ put it, is hilariously inconsistent with the orthodox theory of international trade which assumes, by and large, that products are carried to the shore, put on a boat, and sold in second countries for what the market will yield. In fact, firms follow their products into the second countries, and recreate the firm there. Besides it is able to persuade consumers, and to bring influence to bear, as required, on the community and on the host state. Thus the multinational corporation is the plausible extension of the national corporation; it wins the same kind of security in its transnational environment as it does at home. In addition, it can meet competition by going where the cost of labour is lowest and where the conditions of production are most efficient. In short, the MNC within the context of the world economy is simply the means by which the modern corporation minimizes the uncertainties peculiar to the older international trade.

³ Kiichi Saeki, "Sense and nonsense of economic interdependence", JAPANESE-INDONESIAN RELATIONS IN THE SEVENTIES (Jakarta: C.S.I.S., 1974), p. 50

⁴ For a more elaborate analysis on MNC see Y. Panglaykim, "Western and Japanese multinational corporations", JAPANESE-INDONESIAN RELATIONS IN THE SEVENTIES (Jakarta: C.S.I.S., 1974). Also Judd Polk, "The rise of world corporations", THE SATURDAY REVIEW, Nov. 22, 1969, and Hamlin Robinson, "The role of multinational corporations in developing states", lecture at a symposium of Malaysia student leaders at Cameron Highlands, June 15-17, 1973.

⁵ John Kenneth Galbraith, "The public purpose of economics", DIALOGUE, Vol. 6, 1973, no. 4 p. 58.

Having thrown up some elementary defense works to our rear, let us now summon the boldness to face the problems posed by the presence, or to be more precise, the integration of natural resources in the world economy.

The concept of natural resources, following Michel Batisse⁶, includes everything in the material universe which man can use directly or indirectly for what he considers his benefit. It is a dynamic concept because what is considered useless at one time — say, uranium ore or steep mountain slopes — may become a major resource through a change in technology (nuclear power) or a change in ways of life (winter sports). It is mainly an economic concept, since a potentiality of the natural world becomes a resource only when its utilization is profitable. But it is a useful concept because it reminds us that man is neither angel nor demigod and entirely depends for his survival on the resources he can draw from his environment.

It happened that the developed parts of the world economy, which are exerting by far the greatest pressure on natural resources, cannot find it entirely within their local environments at the national level. To satisfy their ever increasing needs they have consequently to draw most of it from the other parts of the world economy which happened to be the underdeveloped or developing ones. Table I below provide a

TABLE 1

	Soviet Union	United States	E.E.C.	Japan
— Agricultural resources	5%	0%	20%	30%
— Mineral resources	5%	25%	60%	75%
— Energy	0%	10%	55%	84%

Source: General d'armee Simon, "Matieres premières et indépendance nationale", DEFENSE NATIONALE, Aug. - Sept. 1974

⁶ Michel Batisse, "Global prospects for natural resources", NATURE AND RESOURCES, Vol. X, 1974, no. 1, p. 2

comparative view of the relative importance of imports to cover needs in resources in selected developed market economies which, so to speak, reflects the degree of their dependence on foreign sources and, admittedly, of their vulnerability as well. Japan is a case in point. While she has to import nearly one third of the agricultural products that she consumes, she is almost entirely dependent on foreign sources for the provision of energy and minerals⁷. In addition, a major weakness of Japan's energy situation is the fact that 60 per cent of her crude imports and roughly the same proportion of its distribution is in the hands of (seven) big international oil companies⁸.

There are no reasons to believe that the developed market economies will reduce their pressure on natural resources in the future. They may reduce somewhat the rate of increase of this pressure between now and the year 2000. In absolute terms, however, the consumption of resources per capita in these parts of the world economy will continue to grow. Figure 1, that has been composed by Michel Batisse on the basis of United Nations data and projections⁹, indicates that the developed market economies have little intention of reducing their use, and waste, of energy.

The increasing demand for natural resources that comes from these parts of the world economy were, and will be, not primarily due to the growing number of their population. Had it been the size of the population that counts, the heaviest pressure on natural resources would have been generated by the developing parts of the world economy. Yet what happened in the past, and seriously estimated to continue happening in the future, proved to be contrary. The pressures came,

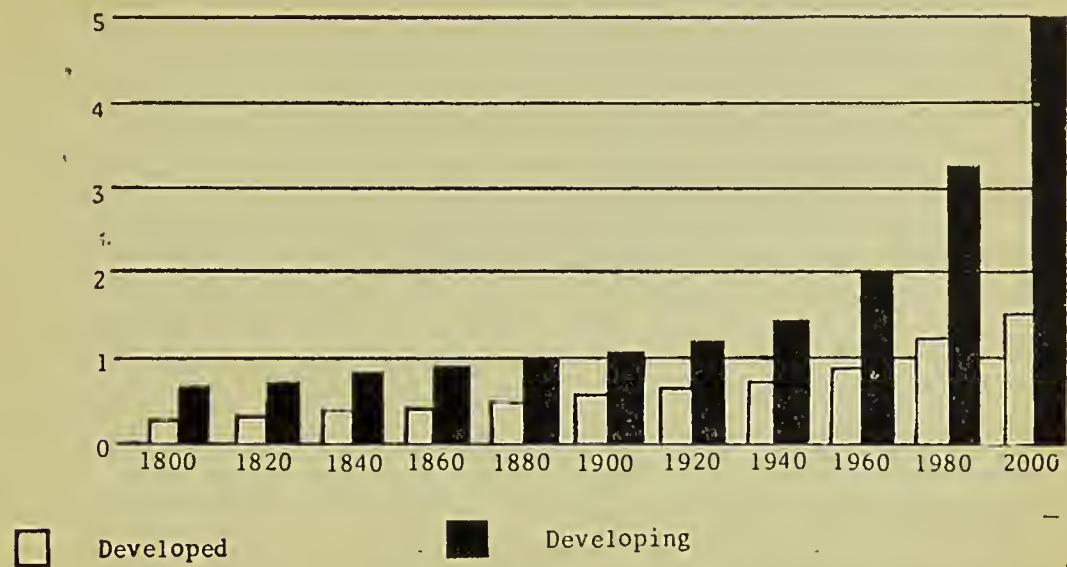
⁷ See General d'armee Simon, "Matieres premières et independance nationale", DEFENSE NATIONALE, Aug. - Sept. 1974, pp. 12-13.

⁸ R.P. Sinha, "Japan and the oil crisis", THE WORLD TODAY, August 1974, p. 337.

⁹ Michel Batisse, *op. cit.*, p. 3.

INTERNATIONAL ECONOMY & PROBLEMS OF NATURAL RESOURCES.

FIGURE 1

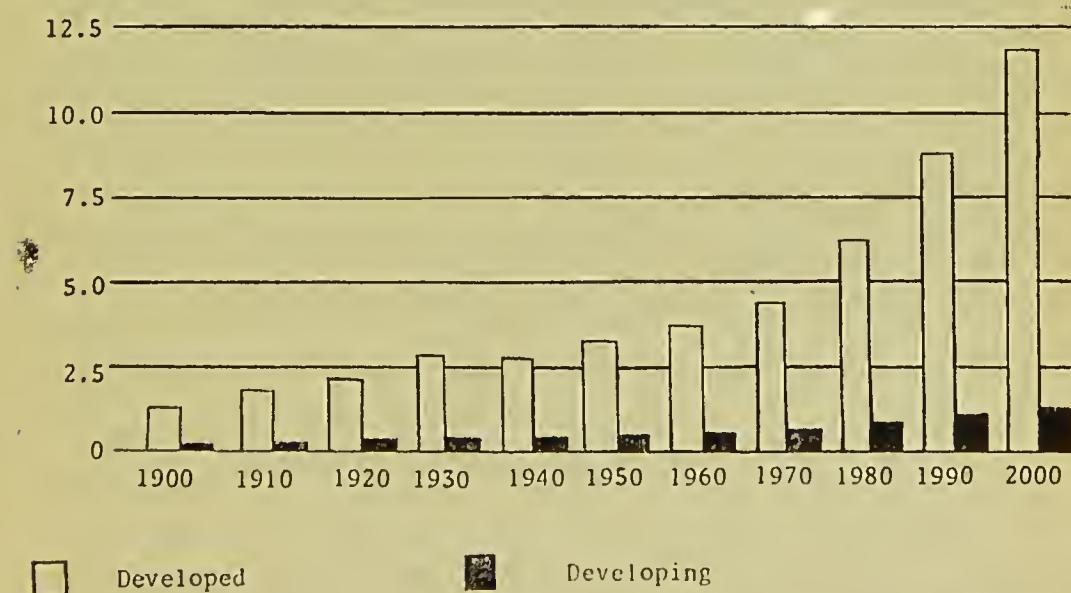


□ Developed

■ Developing

Energy consumption per capita for developed and developing countries, in metric tonnes of coal equivalent (reproduced from Michel Batisse, "Global prospect for natural resources", Nature and Resources, Vol. X 1974, no. 1, p. 3)

FIGURE 2



□ Developed

■ Developing

Population estimates for developed and developing countries, in thousand millions (reproduced from Michel Batisse, "Global prospect for natural resources", Nature and Resources, Vol. X 1974, no. 1, p. 2)

and still will come, from the developed market economies and not from the developing ones. Hence the reasons of the increasing demand for natural resources must be rooted in other causes, namely the standard of living of the population and the available technology.

The standard of living is in fact a simple expression to describe a wide variety of demands on all types of resources, of which the demand for energy constitutes an important one. Energy consumption could thus be used as indicator of material standards of living. The energy diagram contained in Figure 1 shows the growing disparity between both parts of the world economy. While the per capita energy consumption in the developed market economies in 1970 was seven times that level observed in the developing market economies, by the year 2000 it will grow to more than ninefold. This diagram together with the population diagram in Figure 2 provide a view of the gross imbalance between developed and developing market economies in the areas of energy consumption, on the one hand, and population growth, on the other.

As regards technology, it is a well known fact that a more efficient one can produce more goods, or substitute one product for another that is sometimes not too beneficial, if not detrimental, to the developing market economies. The development of synthetic substitutes for natural tropical products and the concentration of science and technology in the rich developed economies are perhaps the two most important examples of such harmful impacts. In fact, the present technology is a technology developed in the rich market economies, by the rich economies, and for the rich economies¹⁰. This is what has made the material standard of living of their population high and is making it higher. This very kind of technology was, and is, of course available to the poor developing market economies. But because the technology used by them is not sufficiently different from that of the rich economies, it is not sufficiently employment-intensive, not sufficient enough to prevent spreading unemployment and poverty. It results in inappropriate products in a way which absorbs too

¹⁰ Cf. H.W. Singer, "Tailoring technology to Third World needs". ECONOMIC IMPACT, no. 4, 1973, pp. 59-60.

many resources and provides too few jobs. It prevents the development of a mass market for more labor-intensive, simple commodities responding to specific needs of the poor economies. At best, it raises profit rates and the incomes of foreign investors and the small elite groups associated with the "modern" sector of the developing market economies.

The transportability of certain natural resources of the developing market economies that makes them possible to be integrated in the world economy was and is not altogether a blessing. Firstly, because most of them were compelled to export raw materials for short-term gain and import food or finished goods — a procedure which hardly assists them in making economic progress¹¹. Secondly, because they sell it to the world market in its rawest forms due in general to the low level technology they possess. Such a situation not only kept the value added of their natural resources at its lowest basic level but also do not promise optimum development for them. Lastly, but not the least, because the price of their transportable resources were kept artificially low and stable for a very long time by its buyers, i.e. the developed market economies.

United Nations statistics indicates how the price of exports of the developing market economies always creeps behind that of the developed market economies (see Table 2). Taking 1963 as base, the unit value (price) index of exports of the developed economies increased to 105 points in 1967, which was the same for that of the world economy as a whole, against 103 for that of the developing economies. In 1972 the index of the developed economies rose again to 130, two points above the index concerning the world economy, against 121 for the developing economies. Hence the price of the exports of these last mentioned economies was not only below that of the developed economies but also below that of the world.

The rapid increase in the prices of the exports of the developed market economies thus far is certainly not due to the increases of the prices of the raw materials nor to the relative scarcity of their own exports. In fact United Nations'

¹¹ Michel Batisse, *op. cit.*, p. 6.

TABLE 2

UNIT VALUE (PRICE) INDEX OF EXPORTS
(in U.S. Dollars - 1963 = 100)

Year	World	Developed market economies	Developing market economies
1961	99	99	100
1962	99	99	98
1963	100	100	100
1964	102	102	103
1965	103	103	102
1966	105	105	104
1967	105	105	103
1968	104	104	103
1969	107	108	106
1970	113	114	109
1971	119	119	116
1972	128	130	121

Source: United Nations, STATISTICAL YEARBOOK 1973, p. 52.

statistics indicates that the quantum of the exports of the developed market economies always exceeded both the quantum of the exports of the developing economies and that of the world as a whole (see Table 3).

The disadvantageous evolution of prices of exports of the developing market economies could also be observed from another unit value index composed by the United Nations, reproduced in Table 4. In it the export goods are divided into 4 categories: (i) all commodities, (ii) food and raw materials, (iii) fuel, and (iv) manufactured goods. Assuming that the price of the second and third categories of export products concern predominantly the developing market economies and that of the fourth category has to do with the developed market economies, the table shows how asymmetric are the

TABLE 3

QUANTUM INDEX OF EXPORTS
1963 = 100

Year	World	Developed market economies	Developing market economies
1961	88	88	89
1962	93	93	95
1963	100	100	100
1964	110	111	107
1965	118	120	113
1966	127	130	118
1967	134	137	124
1968	151	155	136
1969	167	173	147
1970	183	189	160
1971	194	202	168
1972	213	220	186

Source: United Nations, STATISTICAL YEARBOOK 1973, p. 52.

benefits that could be drawn by both partners from the growing world economy. As regards fuel, the item most discussed at present in the world economy, its unit value index shows a relative stability between 1963 and 1970. The index began to rise sharply in 1971 and continued to be so in 1972 but its level still remained below the unit value of the manufactured goods. In fact, the index of the unit value of the manufactured goods has sharply increased already in 1970, at the time when the unit value of fuel was still relatively stable.

The stable and low price of fuel is indeed the pattern of (trade) policy pursued by the developed market economies,

TABLE 4
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	1938	1948	1958	1963	1966	1967	1968	1969	1970	1971	1972
UNIT VALUE INDEX 1963 = 100											
<u>EXPORT</u>											
— All commodities	39	102	100	100	105	104	103	107	112	119	128
— Food and raw materials	35	112	101	100	105	103	102	106	110	115	124
— Fuel	43	105	113	100	97	96	97	98	102	114	123
— Manufactured goods	47	95	98	100	106	105	108	114	122	131	
QUANTUM INDEX 1963 = 100											
<u>EXPORT</u>											
— All commodities	40	39	71	100	127	134	152	169	184	193	211
— Food and raw materials	61	50	75	100	113	115	122	127	137	137	146
— Fuel	29	34	71	100	126	139	155	166	175	206	223
— Manufactured goods	28	33	67	100	136	145	169	194	210	225	247

Source. United Nations, STATISTICAL YEARBOOK 1973, p. 55.

including Japan. In fact Japan's *Economic and Social Development Plan (1967 - 1971)* had already emphasized in March 1967 that "in order to modernize the industrial structure and to strengthen the international competitiveness of enterprises, it is necessary to secure a stable supply of cheap energy which is the basic material for all industry and for the people's livelihood. The essence of the energy policy in Japan is to pursue the possibility of the energy supply meeting these two requirements: stability and low cost"¹². If prices of manufactured goods produced by the developed market economies has shown an ever increasing trend, in spite of the low and relative stability of the prices of raw materials needed to produce it, its root cause lies in the high wage settlements. That being the case I could not help but saying that in the last instance it is the poor developing economies which have borne the burden of the welfare policy pursued by the rich developed economies.

The need for financial resources of the poor developing market economies, that they could get otherwise through the commercialization of their natural resources, is a real and serious one. With a disproportion of the rate of population increase of the developing and developed countries that is estimated about three to one, a typical poor-country economy of a given size, must create three times more employment opportunities than a typical rich-country economy of the same size. But the typical poor-country economy has only, according to Singer¹³, one-tenth the resources of the rich country of the same size. Hence, even if the proportion of total resources that could be set aside for new productive employment creation through capital formation were the same in the two countries, the poor country would have to create three times as many jobs with one-tenth the total resources. Thus resources per new job required would be only one-thirtieth of those in the rich country. But this is not the end of the story. At the low income levels of poor countries, the proportion of resources which can be spared from essential consumption and used for job creation by the conventional method of capital formation may be only half of that of rich countries, say 7.5 per cent, instead

¹² R.P. Sinha,, *op. cit.*, p. 336:

¹³ H.W. Singer, *op. cit.*, p. 59:

of 15 per cent. Thus the disproportion would be further doubled, to about 60 to one. If the same technology is used and the same kinds of jobs are created in the poor and the rich countries, the resources which would be sufficient in the rich countries to create all the new jobs needed would provide less than two per cent of the new employment needed in the poor countries, leaving 98 per cent of the new job-seekers unemployed.

In conclusion I would say that the national economies are now so narrowly interwoven that we could rightly define the older international economy as having stopped to exist and has been replaced instead by a world economy. In this new order the distinction made in the past between domestic and foreign policies can no longer be maintained.

As sensitivities increase as a result of the collapse of the natural barriers that used to insulate economies from one another, governments' policies increasingly impinge on one another. This could be the reason why we are now witnessing the increasing politicization of international economic affairs.

The integration of natural resources in the world economy leads to a state of interdependence between the developed and developing parts of the world economy. But the benefits that could be drawn by both parties from the growing world economy are not equal. This is due to the fact that the interdependency has been established not on an equal strength. Firstly because at the beginning the relationship between both parties was established on a colonial manner and secondly because after gaining political independence, the developing market economies are too weak to review the disadvantageous relationship. This accounts for the growth of asymmetrical interdependence between the developed and developing market economies. Where parties are asymmetrically interdependent, the less dependent may be able to manipulate the relationship to achieve its goals, not only in the area of the issue but in the form of side-payments in other issue areas as well.

The increase of the price of oil could be seen as an attempt of the developing economies to correct the disproportion in the distribution of benefits that they ought to bear silently for so long a time. The developed economies should not qualify

this as an attempt of the developing counterparts to kill the goods that gives the latter the golden eggs. In fact, the developing market economies never think in such a term. If the developed economies put forward this remark, it is probably because they themselves in the past considered their weak counterparts as being the cow that must give them cheaply the necessary milk. If that is the case, then I would say that what we now call as the "oil crisis" is in reality nothing else than a crisis in the belief that the poor developing market economies should eternally provide cheap energy to the rich developed market economies. If this is the kind of crisis we are now facing, the solution must be looked for through a different way of thinking on the part of the developed market economies. They should think more in terms of models of world society rather than models of national growth in which success is less dependent on mother nature but requires more from man itself, from man's comprehension, willingness and intelligence.

INDONESIA AND THE LAW OF THE SEA ISSUE

Mochtar KUSUMAATMADJA

This article is an adapted version of a statement made by Professor Kusumaatmadja in his capacity as Leader of the Indonesian Delegation to the Third U.N. Conference on the Law of the Sea, held in Caracas in July, 1974. As was explained at the time, the statement was addressed to certain issues of basic importance to Indonesia, and was not intended to represent a comprehensive statement of the Indonesian position on all aspects of the Law of the Sea.

Indonesia strongly adheres to the principle that the resources of the sea beyond the limits of national jurisdiction should be used for the benefit of all mankind, taking into particular consideration the developing countries, in conformity with the United Nations Declaration of Principles Governing the Seabed and the Ocean Floor and the Subsoil thereof, beyond the limits of National Jurisdiction (General Assembly Resolution 2749/XXV). To this end, Indonesia supports the establishment of effective international machinery with broad powers to engage in and administer the exploration and exploitation of the international seabed area and to regulate the distribution of benefits derived therefrom.

Indonesia is a country comprising more than 13.000 islands, its combined coastlines being longer than the equator. It is located between the Pacific and the Indian Oceans, thus sitting astride busy international shipping lanes connecting these two great and very important oceans. It may be of some interest to recall that it was in the search of the spice islands of the Indies, now called Indonesia, that Christopher Columbus discovered America and Grotius later on championed and cause of the freedom of navigation justifying the right of the

Dutch to sail to the Indies, thereby laying down the foundations for a debate which has engaged mankind up to the present day.

The special geographical position of Indonesia just described brings with it special needs and imperatives relating to its national existence, while bringing with it at the same time special responsibilities relating to the interests of the international community.

What are these imperatives? Given the geographical realities and the commitment to realize the hopes and aspirations embodied in our Proclamation of Independence, the first is that Indonesia has to ensure and safeguard her national and political unity as well as her territorial integrity. These are essential prerequisites for the maintenance and development of our economic, cultural and social unity, and as recent history has shown, the very viability of Indonesia as a nation.

It was on the basis of these imperatives that on December 13, 1957, the Indonesian Government proclaimed itself an archipelagic state. It stated among others, that all waters around, between and connecting the islands of the Republic of Indonesia, regardless of their width, are the natural appurtenances of the land territory of the Republic of Indonesia and therefore form part of the internal or national waters under the absolute sovereignty of the Republic of Indonesia. This concept emphasizes the unity of the land and water territories of Indonesia.

In this connection, it is of interest to note that the Indonesian language equivalent for the word "father land", "patrie", "patria", is "tanah-air", meaning "land-water", thereby indicating how inseparable the relationship is between water and land to the Indonesian people. The seas, to our mind, do not separate but connect our islands. More than that, these waters unify our nation.

The special responsibilities of Indonesia towards the interests of the international community, especially in the maintenance of international maritime traffic, are clearly outlined in the Declaration of 1957. The Declaration states, inter alia, that innocent passage of foreign vessels in the internal waters enclosed by the new method of drawing

straight baselines (now called archipelagic waters) is guaranteed as long as and as far as it is not contrary to or disturbs the sovereignty or the security of the Republic of Indonesia. The guarantees for the innocent passage of foreign vessels through these parts of internal or archipelagic waters have been further regulated in the act and Regulation enacted subsequently in implementation of the Declaration.

Together with the Delegations of Fiji, Mauritius and the Philippines, the Delegation of Indonesia has submitted draft principles and articles concerning the archipelagic state concept to the Seabed Committee, as contained in Documents A/AC. 138/SC. II/L. 15 and A/AC. 138/SC. II/L. 48. The following comments are intended to briefly highlight some of the basic elements of the concept.

Firstly, for the reason of its national unity, territorial integrity, political and economic stability, an archipelagic State shall have right to draw straight baselines connecting the outermost points of the outermost islands and drying reefs of the archipelago. *Secondly*, the archipelagic State exercises sovereignty over the waters within the baselines, the airspace above these waters, the water column, the seabed and the subsoil thereof as well as over the resources contained therein. *Thirdly*, the extent of territorial sea, economic and other jurisdictions of the State with regard to the sea around it shall be measured from these baselines. *Fourthly*, the legitimate interests of the international community for passage through the archipelagic waters for the purpose of transit from high seas to high seas shall be respected on the basis of innocent passage through archipelagic waters or through designated sealanes, taking into account that the passage shall not prejudice the peace, good order, and the security of the archipelagic State.

The concept just outlined certainly needs further elaboration, including the definition of an archipelago, the precise regime of passage, the protection of specific traditional interests of neighbouring countries in the living resources of the archipelagic waters, etc.

As regards the definition of the term "archipelago", the Indonesian Delegation, together with those of other archipela-

gic States, have formulated a general definition which says that an archipelago is a "group of islands and other natural features which are so *closely interrelated* that the component islands and other natural features form an intrinsic geographical, economic and political entity or which historically has been regarded as such". Thus, an archipelago must be a "group" of islands, grouped together in a real sense. An archipelago, therefore, must be distinguished from a "chain of islands". Moreover, the classical meaning of "archipelago" is a "sea studded with islands", thus emphasizing the predominance of water over land. Again, according to this definition, an archipelago must be distinguished from just a collection of islands; therefore, an "archipelagic state" must be distinguished from an "island state". In an "archipelagic state" the elements of water must be necessarily larger than the elements of land.

Among a number of delegations there is an apparent desire to define an archipelago by mathematical formula, i.e. by fixing maximum permissible length of baselines and a ratio between land and water within the baselines. Although such a formula may prove to be unrealistic, since whatever ratio or maximum length for baselines are fixed are bound to be arbitrary and hence might not conform to reality, the Indonesian Government is nevertheless open to this suggestion and would be prepared to consider a maximum permissible length for baselines and precise ratio of land and water, as long as these criteria meet the requirements of Indonesia and other archipelagic States.

There is also the problem of an archipelago which belongs to a State but does not form an independent State in itself, thus not constituting an "archipelagic State". The Indonesian concept is not intended or designed to cover such a case, and while appreciating the need for its consideration, we submit that it should be treated as an issue distinct from and separate from the concept of an archipelagic state.

The question of passage through archipelagic waters received considerable attention during the Conference. Being a developing country of 125 million people which has to live

from the export of primary products and which has to depend on the importation of machineries and raw materials needed in its development, it would be suicidal indeed for Indonesia to create a situation in its waters which would hamper the smooth flow of her sea-borne trade. More than any other countries which are concerned about the unimpeded passage for ships under the archipelagic concept, Indonesia's own and vital dependence upon international shipping makes it imperative for her to ensure the smooth, speedy and safe passage of all merchant ships, under whatever flag, through its waters. It is no less important to ensure that ships traversing through Indonesian archipelagic waters from one part of the high seas to another part of the high seas should be assured of a safe and speedy passage. It is with this in mind that, in their draft, the archipelagic states explicitly recognized innocent passage through their archipelagic waters.

The issue of passage could perhaps be easier comprehended, if a clear distinction be made between *merchant vessels* on the one hand and *vessels with special characteristics including warships* on the other. With regard to merchant vessels, the traditional rules and principles of innocent passage have proven to be very satisfactory for passage through the territorial sea and through the Indonesian archipelagic waters. There is no basis to the suspicions raised that passage of foreign merchant vessels through archipelagic waters would be hampered. Indonesia is willing to support a Convention which would provide that normal commercial navigation through traditionally used channels in archipelagic waters shall not be restricted and fully recognized. These traditionally-used navigational channels or routes for commercial vessels may or may not coincide with the specially designated sealanes mentioned below. This is truly in the best interests of the international community.

The problem of passage in the interest of the international community should not, however, be confused with the problem of passage for the particular interest of a few specific countries, especially the passage of warships and submarines for military purposes based upon considerations of their respective global strategies. Although the free and unham-

perered passage of such vessels in one view is essential for the maintenance of global peace and security, I submit that there is another equally valid view which sees it as running counter to the best interests of the international community especially when considered within the context of the arms race which will only heighten world tension. According to the latter view, the unrestricted, free passage of warships is against the aspirations of peace-loving nations which would like to see the use of the seas for the cultivation of closer, fraternal relations among nations. Consider, for example, the case of free and unhampered passage of warships through the Indonesian waters. If warships and submarines of foreign contending powers have the fullest freedom in navigating through our waters, what would happen not only to our national security but also to the aspirations of the South East Asian nations to establish a Zone of Peace, Freedom, and Neutrality in their area, an aspiration which has been welcomed by the Non-Aligned Chief of States ?

Indonesia, as an archipelagic State, has no intention to prevent the passage of such warships provided the territorial integrity of the archipelagic State is fully recognized and as long as such passage does not endanger Indonesian security. It is particularly with these warships in mind that the institution of special sealanes through archipelagic waters is being considered, apart from the freedom of merchant vessels to move through normal international shipping routes in archipelagic waters in innocent passage. It is therefore confusing the issue to think that we are contemplating restricting all maritime traffic, military and non-military, to sealanes. In discussing the matter of passage through archipelagic waters, the maintenance of a distinction between military and non-military vessels is therefore essential.

Finally, there is the problem of traditional interests claimed by neighbouring countries in the archipelagic waters. In a spirit of good-neighbourliness and regional co-operation, Indonesia is prepared to discuss this matter bilaterally with her neighbours on the basis of recognition of Indonesian sovereignty over her archipelagic waters. The understanding already reached between Malaysia and Indonesia to recognize

the special need of passage between West and East Malaysia bears testimony to the good-will and sincerity of Indonesia in finding a solution to matters of mutual concern.

Of no less importance to Indonesia is the issue of innocent passage through straits used for international navigation, on which 8 Delegations, including Indonesia, have submitted draft articles to the Seabed Committee, as contained in Document A/AC. 138/SG. II/L. 18. The sponsors of this document strongly believe that passage through these straits should be covered by the regime of innocent passage which guarantees a just balance between the legitimate interest of the coastal states and the general interests of international maritime navigation utilizing these straits, similar to that applicable in the territorial sea, since they are in fact parts of the territorial sea of the coastal states. In protecting their own legitimate interests, the riparian states are aware that this innocent passage cannot be hampered. It is not the desire of the riparian States to be arbitrary or to be subjective in the interpretation of innocent passage. Further elaboration and a more precise definition of this well-tried concept may be required in the light of recent developments in technology in order to make it more responsive to present day realities.

The Indonesian Delegation to the Caracas Conference expressed complete agreement with the views expressed by the Malaysian Delegation in relation to the Straits of Malacca, which provide a good example of straits used for international navigation. The Indonesian Delegation was particularly interested in the problems posed by the passage of warships through such straits.

The concept of the "Economic Zone" and that of the "Patrimonial Sea" have of late been gaining general acceptance, and the Indonesian Government fully endorses them. The vital necessity of the economic zone to the developing coastal states is self-evident. Although there are some differences of opinion, including the extent of the continental shelf in the two concepts of Economic Zone and Patrimonial Sea, a unified concept should not be beyond achievement.

On the question of zones adjacent to the territorial sea, the Indonesian Government believes in the wisdom of retaining

the concept "Contiguous Zone" for purposes of sanitary control, customs and other jurisdictions generally associated with that Zone, the extent of which is yet to be agreed upon.

With regard to the continental shelf, Indonesia is of the opinion that the existing legal regime should continue to be respected, since this is the only realistic attitude to take. Present international law recognizes the sovereign rights of the coastal states over the continental shelf for the purpose of exploring and exploiting its natural resources up to a depth of 200 meters isobath and *beyond that*, to the limit of "exploitability". It is the task of Conferences such as that held at Caracas to define clearly the extent of the "exploitability" criterion, a criterion recognized by the existing law. It is the opinion of the Indonesian Government that, after the limit of "exploitability" criterion has been clearly defined and the new limit of the continental shelf has been determined, the existing regime of continental shelf should continue to be applied to that portion of the seabed. In this connection there is the problem of delimitation between the opposite and adjacent states. Within the last few years, Indonesia has successfully negotiated and concluded boundary agreements with practically all of her neighbours except in one or two cases where negotiations are still in progress.

Being a developing country ourselves, we look with deep sympathy and understanding to the problem faced by the landlocked and other geographically-disadvantaged developing countries. Indonesia recognizes that it is in the vital interest of the landlocked countries that they have a right of access to and from the sea. At the same time, Indonesia is aware that modalities for such access should be negotiated with the transit states, since only through co-operation with the latter may those rights be effectively and efficiently exercised. Indonesia is equally sympathetic to the legitimate interest claimed by countries which are *genuinely* geographically disadvantaged.

On the question of scientific research there was clearly a division of opinion among the members of the Conference in Caracas. Scientific research is no doubt closely related to other uses of the sea; and thus its exercise should be in

harmony with the regime eventually prevailing over those waters. For this reason, scientific research within internal waters, archipelagic waters, and territorial sea falls completely under the sovereignty of the coastal states, and the scientific research beyond territorial sea but within the limit of national jurisdiction can only be carried out with the expressed consent and participation of the coastal states. Only in the sea beyond national jurisdiction can freedom of scientific research be applied; this freedom should be subject to an agreed international regime.

The position of the Indonesian Government with regard to scientific research is equally applicable to the problems of the marine environment in the sense that the coastal states should have complete sovereignty for the protection of the marine environment in internal waters, archipelagic waters and the territorial sea and a special jurisdiction for the preservation of the marine environment in the area beyond the territorial sea but within the limits of national jurisdiction.

A problem that has so far received very little attention is that of semi-enclosed seas. Perhaps the subject could be discussed along the line of the Economic Zone or Patrimonial Sea concept. At any rate, Indonesia is prepared to co-operate with interested parties to find an acceptable legal regime with regard to the subject, with a view to guarantee the special interests of the littoral states with regard to the preservation of the marine environment, scientific research and good-order in the semi-enclosed seas.

In conclusion I would like to repeat the appeal of the Indonesian Delegation at Caracas to the big maritime powers — which on the basis of previous practice are enjoying a privileged position in the use of the seas — to adapt themselves to the changes that have taken place in the world. They should strive to approach the issues on the Law of the Sea from the point of view of sovereign equality and equity and not so much on the basis of power relationships, whether economic or military, and should refrain from equating their wish to maintain that privilege with the needs of the international

community. Military requirements of a few countries for a free movement of their military vessels should not be confused with the legitimate interest of the world community in a smooth, safe and speedy passage of merchant vessels.

A new regime of the sea acceptable to all, even if not entirely satisfactory to all nations, is in the best interest of the world community, including the big maritime and naval powers themselves.

THE HISTORICAL DEVELOPMENT OF THE DUAL FUNCTION OF THE INDONESIAN ARMED FORCES

Nugroho NOTOSUSANTO

It was only on October 5, 1945, one month and a half after the Proclamation of Independence on August 17, that the Government of the Republic of Indonesia officially established a regular army. The name given to the new army still reflected the low profile adopted by the Government vis-à-vis the Allied Forces who were entrusted with the task of disarming and repatriating the defeated Japanese and freeing the Allied prisoners-of-war and internees from the Japanese camps. The *Tentara Keamanan Rakyat* (TKR), or People's Security Army, started to organise itself in a situation where armed clashes between Indonesians and foreign troops were the order of the day. As a matter of fact those clashes were the decisive factor in convincing the Government of the absolute necessity for an army, especially for a sovereign state threatened with elimination by outside forces.

In the meantime, the burden of establishing the authority of the Republic was carried by the Indonesian youth, who, swept by a revolutionary fervour and thinking of themselves as freedom-fighters, started to take over government offices and vital works or industries. These youthful freedom-fighters were organized into two different groupings, the *Badan Keamanan Rakyat* (BKR), or People's Security Body, and the so-called "struggle organizations". The BKR was a kind of people's militia organized locally by the regional Indonesian

National Committees. The Central Indonesian National Committee and its regional equivalents were the vehicles for the socio-political forces to run the Revolution or the Struggle. The BKR's were organized to assist the local authorities in maintaining public order. These BKR's had no central headquarters and hence were clearly not army units. It may be noted at this point that the leaders of the *BKR* were invariably active in the National Committees together with the leaders from other groups. Part of the youth joined these local *BKR*'s, but since they considered themselves freedom-fighters rather than government officials, they were not content with the business of upholding public order, but rather used their units to destroy the Japanese order and to replace it with the new order of the Republic of Indonesia. The *BKR* and struggle organizations suffered heavy losses, especially in their efforts to obtain Japanese arms.

Many of the more politically inclined youths opted not to join the *BKR* but rather to form various "struggle organizations", a blend between political clubs and armed bands. As a rule, the "struggle organizations" acted together with the *BKR*-members in fighting the enemies of the Republic, but during the later stages of the Struggle their different ideological orientations became more apparent.

When the Government proclaimed the formation of the *TKR* as the regular army, the various *BKR*-units transformed themselves into local army units and their members assumed military rank and titles. During this period of early consolidation of the *TKR*, heavy fighting broke out in several parts of the country, particularly on Java, due to the arrival of British forces representing the Allies and, with them, the forerunners of the old Dutch colonial administration, many of whom had fled to Australia when the Japanese invaded Indonesia. The British were committed to assisting in the restoration of Dutch rule over the archipelago, and although they tried hard not to get involved in the dispute, an open clash proved unavoidable. Because the British had insufficient troops in Indonesia, they were compelled to use Japanese troops, whom they were supposed to disarm, to fight the Indonesian forces. They also released the Dutch prisoners-of-war

from the Japanese camps and rearmed them, so that, by the end of 1945, the Indonesian forces consisting of the badly organized *TKR* and the even less organized struggle organizations, had to face well-trained troops from three countries (i.e.: Britain (although the troops were Indian), the Netherlands and Japan)¹.

This account has been presented to illustrate the fact that the *TKR* was born in the midst of the Struggle to defend independence, and hence belongs to what Morris Janowitz has called "armies of national liberation", the other categories being "ex-colonial armies", "post-colonial armies" and "non-colonial armies". Armies of national liberation are the smallest in number. Apart from Indonesia, according to Janowitz, only three other countries have armies of national liberation, namely Burma, Algeria and Israel, and, I would also add, North Vietnam.² It is interesting to note that in Israel and North Vietnam the system which in Western terminology is called "civilian supremacy" has prevailed, while in Burma and Algeria the military have played an independent political role. The reason seems to be that in Israel and North Vietnam, but not in Burma or Algeria, the struggle towards nationhood was led by a strong political movement which formed the army as its military auxiliary. The original leaders of the military in Burma were also top leaders in the independence movement, the Anti-Fascist People's Freedom League. Aung San, for example, prepared himself for his leadership role through military training. In Algeria the struggle for independence was won by a movement started by young people weary of the "tame" politics of elder nationalists and applying the tactics of armed uprising. There was no sharp dividing line between politicians and military in the Algerian or Burmese movements.³

¹ Sartono Kartodirdjo, Marwati Djocened Poesponegoro & Nugroho Notosusanto (ed.), SEJARAH NASIONAL INDONESIA (National History of Indonesia) VI, 1975.

² Morris Janowitz, THE MILITARY IN THE POLITICAL DEVELOPMENT OF NEW NATIONS; AN ESSAY IN COMPARATIVE ANALYSIS, Chicago & London, 1964, 13.

³ George McTurnan Kahin, (ed), GOVERNMENTS AND POLITICS OF SOUTHEAST ASIA, Ithaca-NY, 1964, 93-5; Edward Behr, THE ALGERIAN PROBLEM, Penguin Books, 1961, 55-60.

The Indonesian situation in 1945 clearly reflected the absence of a single strong, independence movement. The Indonesian Preparatory Committee for Independence was no more than that: a committee. It was not a movement or front with strong leadership, let alone a single party. The Struggle was conducted in typically Indonesian *gotong royong* (mutual help) fashion. No single group was the "vanguard of the revolution". Everybody who was on the side of the Revolution or Struggle was a freedom-fighter using political or military means, and a great many used both! Consequently the distinction between civilian and military was not very clear. By becoming official military men, the members of the *TKR* did not regard themselves as ceasing to be freedom-fighters, while the members of the struggle organizations considered themselves armed freedom-fighters as well. Two years later, when, for the sake of more efficient prosecution of the war, the regular army was fused with the various struggle organizations to form the *Tentara Nasional Indonesia* (TNI), or Indonesian National Army, the *TNI* became the only vehicle for all armed freedom-fighters, notwithstanding its "professional" military garb.

The police had the same revolutionary origins as the army. The nucleus of the Police was the so-called police youth, namely ex-members of the Japanese-lead *Keisatsutai* or Police Force. The *Keisatsutai* was the only Indonesian unit not to be disarmed by the Japanese at the end of the World War — the Japanese evidently adhered to the Western principle of police as non-combattants who had to remain active even under foreign occupation. The Indonesian ex-policemen obviously considered themselves freedom-fighters on the side of Independence rather than policemen of the Japanese occupation administration. Their arms became the initial capital for the armory of the Republic. In later stages of the War of Independence, whenever Dutch forces occupied Republican territory the Police would invariably withdraw, together with the Army, to pockets of resistance or to unoccupied territory. When the Army and Police were later integrated into the Armed Forces

(ABRI), it was therefore not surprising that the ABRI should become the vehicle of the armed freedom-fighters.⁴

It should be clear from this brief account of the origins of the Indonesian Armed Forces that what came to be called the "Dual Function" of the Armed Forces was already in existence — in practice, if not yet in name — at the very beginning of the Struggle for Independence.

DEVELOPMENTS DURING THE GUERRILLA WARFARE PERIOD

The Dual Function developed rapidly as a characteristic of the Indonesian Armed Forces following the adoption by those forces of guerrilla tactics in response to the superiority of Dutch arms during the second military action. Immediately after the beginning of the Dutch offensive, military governments were proclaimed in Java and Sumatra, each under a military and territorial commander. Under the military and territorial commanders were the military governors, the military regional commanders, the military district commanders and the military sub-district commanders. It so happened that neither the President nor the Vice President of the Republic withdrew to the countryside before the Dutch forces occupied Yogyakarta, the revolutionary capital, with the result that both men were captured. In the absence of the President and the Vice-President, General Soedirman, the Commander-in-Chief of the Military Forces, became the symbol of the fighting Republic during the final stages of the war. General Soedirman became a legendary figure because he kept his word and personally led the armed struggle among the people against an all-out attack by the Dutch, notwithstanding the fact that he was gravely ill with consumption at the time of the attack. A popular hero, he died soon after the end of the War of Independence.

⁴ See Nugroho Notosusanto, "Indonesia: Armed Forces and Society into the 1980's", in Catherine McArdle Kelleher, (ed.), POLITICAL MILITARY SYSTEMS: COMPARATIVE PERSPECTIVES, Beverly Hills -- London, 1974, 39-54.

During the last year of the War, the armed forces were for all practical purposes in charge of every aspect of national life in the areas still in the hands of the Republic. There was an Emergency Government to be sure, but its role was symbolic rather than effective.⁵

When the War of Independence came to an end, the armed forces obeyed the orders of the reinstated Republican Government to cease hostilities, and civilian administration was soon restored throughout the country. Before the armed forces were able to adequately consolidate following the war, the new Republic of the United States of Indonesia (R.U.S.I.) was beset by internal war, instigated on the one hand by colonialist and separatist elements seeking to maintain the structures created by the Dutch, and on the other by extremist Islamic movements aiming to set up an Islamic state next to, or instead of, the *Pancasilaist* Republic. This situation continued until after the formation of a new, unitary Republic.

The political system remained much the same under the new Republic as it had been under R.U.S.I. — a parliamentary democratic system modelled along Dutch lines, complete with the principle of civilian supremacy over the military. This principle, however, was repeatedly abused as politicians competed for support from the military. To the extent that such efforts were successful, they resulted in the formation of factions within the armed forces that were amenable to manipulation for narrow political ends by politicians outside the military structure. Finally, in 1952, these uncontrolled attempts to politicize the armed forces resulted in what came to be known as the "17th October Affair". Precipitated by a move in Parliament to discuss internal army affairs concerning personnel and training, the "Affair" represented a military protest against civilian meddling. Rather than solving the problem, however, the "Affair" only served to promote further disagreement within the ranks of the armed forces, which disagreements were then, in turn, further exploited by the politicians.

⁵ Nugroho Notosusanto, SOME EFFECTS OF THE GUERILLA ON ARMED FORCES AND SOCIETY IN INDONESIA 1948 - 1949, Jakarta, 1974.

The abuse of the principle of civilian supremacy over the military continued unabated and was one of the causes of the growing disunity and chaos evident in the country by 1955. Gradually the realization developed within concerned military circles that, as the vehicle of the armed freedom-fighters, the Army would have to take a hand in order to save the nation from anarchy. Hopes that the political system would function more effectively once elections had been held began to fade following the elections of 1955, as it became apparent that elections alone were an inadequate cure for chronic instability. After the elections, the country became increasingly divided as rebellious groups sought to exploit the weaknesses of the political system. The Army joined the majority of responsible Indonesian leaders in arriving at the conclusion that the Western European type of parliamentary democracy was incompatible with Indonesian political culture.

In this atmosphere of national frustration, people began to call for strong leadership. When President Soekarno stepped forward with his concept of Guided Democracy, the Army responded by proposing that the Government should return to the Constitution of 1945. This was accepted by the President and a decree was issued disbanding the elected Constituent Assembly and re promulgating the Constitution of 1945. President Soekarno, however, went his own way with his concept of Guided Democracy and failed to implement the provisions of the Constitution. Despite the successful integration in 1963 of the Army, Navy, Air Force and Police into a coordinated Armed Forces, attempts to divide these Forces along political lines continued unabated. Inter-service rivalry intensified, while efforts continued, particularly on the part of the Communist Party of Indonesia, to infiltrate both the officer corps and the rank and file. The struggle was joined between the integrationist and the divisive elements within the Armed Forces.

President Soekarno's policies failed to bring improvement. On the contrary, ideologically, politically, economically and socio-culturally the country became a mess, and with the coup attempt of the Communist Party of Indonesia, the fundamentals of the State themselves were in jeopardy. In the bewildering situation of October 1, 1965, where the leadership

of the Army was incapacitated by the murder of the Army Commander and the majority of his general staff, General Soeharto stepped forward and within 24 hours had the situation well in his hand⁶. He acted as a freedom-fighter seeking to save the achievements of the National Struggle from total destruction. There was nobody to give him orders, the whereabouts of the President were at first unknown, and, when known, it proved that he was in an area controlled by the rebels. General Soeharto's decisiveness saved the *Pancasilaist* Republic, and, supported by students, several political parties, and particularly the various functional groups, the General took the first steps to inaugurate a New Order, based on the strict implementation of the principles of the *Pancasila* and the Constitution of 1945. This was done in a constitutional and gradual way through a series of decisions by the Provisional People's Consultative Assembly, not the least significant of which were those governing the management of the economy and the conduct of foreign relations. The Assembly also acknowledged the Dual Function of the Armed Forces as a legitimate institution according to the Constitution.

Unable to control the situation, President Soekarno first appointed General Soeharto as Commander of a new Command for the Restoration of Security and Order and later on issued the wellknown March 11, 1966 Order, giving General Soeharto full powers to restore order and safeguard the Presidency. Finally President Soekarno acknowledged his inability to lead the Nation and resigned his presidential powers to General Soeharto, who was then appointed Acting President by the Assembly. Later the Assembly appointed General Soeharto as full President pending general elections. We all know that the elected Assembly subsequently chose General Soeharto as President of the Republic.

CONSOLIDATION OF THE DUAL FUNCTION

Under the governments of the New Order, the Armed Forces lost no time in strengthening the integration of the

⁶ Nugroho Notosusanto and Ismáil Saleh, THE COUP-ATTEMPT OF THE SEPTEMBER 30 MOVEMENT, Jakarta, 1967.

Armed Forces and consolidating the Dual Function. In 1966, two important high-level meetings were held, namely the Second Army Seminar and the First Defence and Security Seminar, at which a high degree of consensus on guiding principles was achieved. Two steps were taken, first to formulate the Dual Function systematically, and second to set up the mechanism necessary to implement the operational aspect of the socio-political function of the Armed Forces, namely the *Kekaryaan ABRI*.

It should be pointed out that the Dual Function of the Indonesian Armed Forces, especially their socio-political function, is completely congruous with Indonesian political culture. If we define "political culture" as "the underlying propensities of a political system consisting of attitudes, beliefs, values and skills which are current in an entire population"⁷ then we can consider the *Pancasila* as the essence of Indonesian political culture. The *Pancasila* stands for balance and harmony between individual and society, between region and nation, between subject and government, between citizen and citizen, between region and region, between religion and religion, among social groups, and among political forces. Any form of extremism and fanaticism is alien to the spirit of *Pancasila*. Mutual cooperation is valued higher than competition while gradualism is valued more than radicalism. The *Pancasila* philosophy provides for an atmosphere of "familyship" (*kekeluargaan*) in the nation.

Every deed for the common good of all citizens, for the whole nation, should be performed in the spirit of mutual cooperation and "familyship". The two basic missions of the State, namely to guard national security and to achieve national prosperity, are the duty of every social group and of every citizen. Maintaining National Defence and Security is the duty of the whole people with the Armed Forces only as its nucleus, while striving for national prosperity is also the duty of every social group including the Armed Forces.

According to the Constitution, membership of the People's Consultative Assembly, which is the highest state power,

⁷ Cf. Gabriel A. Almond and G. Bingham Powell, Jr., COMPARATIVE POLITICS: A DEVELOPMENTAL APPROACH, Boston, 1966, p. 23.

consists of the members of Parliament plus representatives of regions as well as of groups. In other words, every possible grouping is presented in the Assembly, and hence involved in the process of government. As one of the social groups, the Armed Forces are consequently not excluded.

It should be clear from all this that the Dual Function of the Armed Forces is not a temporary arrangement; on the contrary, it is an integral part of the Indonesian political system. As long as the Pancasila and the Constitution of 1945 are maintained by the People's Consultative Assembly, the Dual Function of the Armed Forces will continue to exist. The implementation of the socio-political function, however, will be intensified or lessened according to the situation of the nation. Whatever the case may be, it will always be the purpose of the Armed Forces to play a stabilizing role in times of crisis and a dynamizing role in times of national stagnation⁸. Every effort of the Armed Forces will be directed towards achieving the National Aim as formulated in the Preamble of the Constitution, namely: "..... to establish a government of the Indonesian state which protects the whole Indonesian nation and the whole Indonesian fatherland, and to promote general prosperity, to improve the intellectuality of national life and to participate in the realization of a world order based on independence, eternal peace and social justice....."

⁸ Nugroho Notosusanto, THE TRANSFER OF VALUES IN THE INDONESIAN ARMED FORCES, Jakarta, 1974.

THE DEVELOPMENT OF LIBRARIES IN INDONESIA

Mastini HARDJO-PRAKOSO

INTRODUCTION

Under the impact of what may be called the "information revolution", the position of the library in society — and, consequently, the role of the librarian — has changed significantly over the last decade or so. The type of development that has most directly influenced the library as an institution includes the exponential increase in the production of recorded material, the rapidly increasing dependence of organizations of all types upon a continual flow of up-to-date information, and the continual technological advances in the collection, compilation, reproduction and distribution of information. Gone are the days when a library was regarded simply as a storage place for books and the librarian as its passive custodian. Libraries today are an integral part of the overall process of social development, and their functions and responsibilities are correspondingly complex and expensive.

Indonesian libraries are no exception to these trends. As the tempo of development increases and the pressures of social change mount, Indonesian libraries are struggling to cope with the ever-increasing demands placed upon them. This essay attempts to briefly survey the historical background to the contemporary library scene, to discuss some of the major problems confronting Indonesian librarians, and to suggest some ways in which the situation may be improved.

LIBRARIES DURING THE COLONIAL PERIOD

The oldest library in Indonesia today, the Central Museum Library, was established in 1778 as the library of the Royal Batavian Society of Arts and Sciences. Although a non-governmental agency, the Society was awarded the right to use the designation "Royal" by the Government in appreciation of its valuable contributions to science.

From its inception, this Library attempted to cover as wide a range of subjects as possible, and towards this end it collected material from virtually all over the world. In particular, its collection of Indonesian publications from the beginning of the 17th century to the Japanese occupation is the most comprehensive in Indonesia, an achievement due in part to the policy, introduced by the Netherlands East Indies Government in 1913, of requiring all Government departments and agencies to submit to the Library one copy of every one of their publications. This policy also provided for all Government departments and agencies to surrender to the Library their collected publications dating back as far as 1856.

The collection also grew as the result of the acquisition, by both purchase and donation, of publications from both at home and abroad. The Library functioned as a national collection depot, serving government as well as private bodies.

Another long-established library is the Bibliotheca Bogoriensis, founded in 1842 to serve the needs of the famous Botanical Gardens at Bogor, and specializing accordingly in such fields as agriculture, biology, and botany.

The Library of the Institute of Technology at Bandung was established in 1920. By 1914 there were libraries established in some 680 public schools, and a library usage programme, set underway in 1908, was functioning under the auspices of the "Commission for Popular Literature" (*Balai Pustaka*). By 1930 there was a total of about 2,500 libraries for school and public use and containing both Dutch and vernacular materials.

LIBRARIES DURING THE JAPANESE OCCUPATION (1942 — 1945)

Virtually the only library permitted to function under the Japanese administration was that at the Central Museum, which not only survived the occupation intact but also acquired a valuable collection of official Japanese publications and newspapers. In general, the Japanese sought to destroy the library system established by the Dutch, and enormous quantities of Dutch language publications were burnt or otherwise lost to history.

THE SITUATION SINCE THE PROCLAMATION OF INDEPENDENCE ON 17th AUGUST 1945

The *Library at the Central Museum* continued as the main library following the achievement of independence. In 1948, the Library was designated as a depository library for all United Nations publications. In this early independence period, the financial situation of the Library was still satisfactory, and subscriptions to publications both at home and abroad were maintained. The rate of acquisition, however, declined steadily after 1942 due to the fact that the requirement for all official publications to be deposited with the Library ceased to be properly observed. In 1950, the name of the Royal Batavian Society of Arts and Sciences was changed to the *Lembaga Kebudayaan Indonesia* (Indonesian Cultural Institute).

Mindful of the future of its staff, the Board of the Institute agreed, in October 1962, to hand over control of the Museum, together with its library, to the Government. Because of the great historical value of its collection, the Museum and the library were placed under the jurisdiction of the Department of Education and Culture. At present the Library at the Central Museum holds approximately 375,000 volumes, including serials and newspapers dating back as far as 1810, and represents an invaluable collection for Indonesian studies, particularly up until the beginning of World War II.

A valuable library was established in Yogyakarta in 1950 by the Hatta Foundation, an organization designed to support the development of Indonesian libraries. That library is now accommodated on the campus of Gajah Mada University. A Library of Political and Social History came into existence in Jakarta in 1952, and now has a collection of about 80.000 volumes, including periodicals.

In 1954, the Department of Education and Culture set up what is now known as the *Centre for Library Development*, the responsibilities of which include:

- textbook development and planning;
- development and control of reading material for the public;
- importing of books and journals;
- public and school library development;
- coordination and supervision of public and state libraries.

There are several categories of *Public Library* in Indonesia. Community Libraries (*Taman Pustaka Masyarakat*) have been established in a number of places, but in general they have proven unsuccessful because of limited funds and lack of trained personnel. There are some twenty State Libraries (*Perpustakaan Negara*) located in provincial capitals, the oldest of which is that at Yogyakarta, which was established in 1948. The role of these State Libraries was defined in 1956 to include:

- serving the community as public libraries;
- acting as reference libraries to local government;
- assisting in the development of the Community Libraries, and School and University Libraries;
- organizing in-service training for junior library clerks;
- organizing mobile libraries; and
- serving as provincial bibliographical and documentation centres.

These State Libraries are administered by the Centre for Library Development.

Supplementing the State Libraries are a number of City Libraries, some of which, particularly in the larger urban centres, are quite well equipped and staffed.

Other library facilities open to the public are the libraries of provincial offices of the Department of Information, although these are primarily designed to service departmental needs.

Short and long term development programmes for *School Libraries* are being implemented by the Centre for Library Development, but the general situation with regard to school libraries remains far from satisfactory. The precise number of school libraries is itself unknown, and the problems afflicting school libraries are the same as those afflicting most Indonesian libraries — inadequate funds and a shortage of trained librarians. Not uncommonly, school libraries suffer also due to a lack of interest on the part of teachers.

The situation is marginally better as far as *College and University Libraries* are concerned. There are some 155 such libraries in the country, and in general they are faculty-based, a characteristic which, while practical in some respects, operates to hinder attempts to establish centralized university and college library systems.

Finally, there are a number of *specialized libraries* servicing the specific requirements of particular branches of government and government-sponsored agencies or research institutes. The bulk of such special libraries are located in Jakarta, Bogor, and Bandung, although there are a few in Sumatra. There tends to be much more overall coordination and exchange of information among special libraries than there is among other types, but even among the special libraries one encounters serious problems due to the lack of trained library staff of all types.

Interest among librarians in *micro-filming* activities is increasing, although micro-filming programmes are still only in the initial stages of development. In 1963, a micro-filming cooperation programme was initiated jointly by the Central Museum Library and Cornell University. This programme resulted in the micro-filming of approximately one hundred

titles of old newspapers before it was discontinued in 1973. The National Archives and the Faculty of Letters of the University of Indonesia both have current micro-filming programmes, while the Department of Information is entrusted with the task of micro-filming the holdings of newspapers at the Central Museum. The Indonesian Institute for Sciences (LIPI) has received a set of microfiches made of Indonesian journals covering the years 1945 - 1968. They were given as a grant by the Royal Institute of Linguistics and Anthropology in Leiden.

Four *National Centres* were established in accordance with the recommendations of a workshop on scientific documentation and information networks that was held in Bandung in July 1971. These Centres (*Pusat*) serve as referral centres in the following fields:

- i. science and technology — the *Pusat Dokumentasi Ilmiah Nasional*, which is under the Indonesian Institute for Sciences (LIPI);
- ii. biology and agriculture — the *Bibliotheca Bogoriensis*;
- iii. health and medical services — the Library of the Department of Health;
- iv. social sciences and humanities — the *Pusat Dokumentasi Ilmu Sosial*, also under LIPI.

As referral centres, the four designated organizations are expected:

- to act as the principle agencies for developing the national network system according to national needs;
- to be national depositories for works (published and unpublished) produced in the country;
- to act as focal points through which Indonesian scientific and technical work is made known and made available to the rest of the world;
- to act as catalysts in initiating surveys and research needed for improving national services.

In their daily operations, the four centres are supported by consortiums of libraries in their respective fields. Though the libraries are under different departments or institutes, to facilitate co-operation with the national information network system a reliable and frequent inter-library delivery service is urgently needed. This network system will help create a new dimension in the quality of library and documentation services in Indonesia.

The programmes suffer in its daily operation because of the shortage of professional qualified manpower, in particular at the senior level. There is at present only one graduate library school available at the University of Indonesia, and three training facilities for the paraprofessional level. Another graduate library school is going to be opened at Bandung and will start this year.

The Government has given full support and better treatment to the centres in the Second Five-Year Plan, 1974 - 1979, since documentation and information activities are now more fully integrated with research and development programmes.

A NATIONAL LIBRARY ?

Indonesia remains the only country in Southeast Asia which has yet to set up a *National Library*.

Usually a National Library has its starting point in a collection of books belonging to one of the oldest libraries. The initial collection then becomes the initial asset of the national library.

An examination of the condition of all libraries in Indonesia makes it possible to make an estimate as to which of these libraries fulfills the requirements for becoming the core of the Indonesian National Library. The library with the oldest and largest collection is the Library of the Central Museum (\pm 375.000 volumes). It consists of the main works on social sciences and humanities, although there are significant holdings in other fields due to the Library's early function as depository library for the publications Institute of Natural Sciences, and

at present it is a depository centre for United Nations publications. Furthermore, its collection of publications on Indonesia covering the period from the seventeenth century to the beginning of World War II is very important.

Taking into account its history and its holdings of books and other materials, the Central Museum Library may well be considered to be a suitable nucleus for a future national library.

The Office National Bibliography of the Department of Education and Culture, which has been collecting, however incompletely, Indonesian post-World War II publications since its inception in 1953, might well be combined with the Central Museum Library.

There is one other library whose collection covers similar fields to those of the *Perpustakaan Museum Pusat*: the Library of Political and Social History, Department of Education and Culture. Because this library collects in similar subject fields, it is important to consider the possibility of combining it with the two above mentioned collections.

A National Library for Indonesia should be the centre for the storage of the nation's publications which are, in a wide sense, its cultural heritage. Besides this, its other duties should be :

- determining on what basis its system, organization and services are to be run, what materials are to be collected, and what staffing system is to be adopted;
- to organize an inter-library loan system on a national scale;
- to initiate co-operation with overseas institutes in such activities which are typical for libraries, e.g. exchanging publications, microfilming projects, ordering journals;
- to co-ordinate the development of other libraries by drawing up instructions for their projects, their carrying out of certain duties, their budgeting and staffing.

In addition to such duties, it is suggested that an Indonesian National Library be given the following ones as well:

- to collect, organize and make available the published writings of institutes and government bodies which up till now have not been bibliographically controlled;
- to become a depository library for United Nations publications and official publications of other countries;
- to lead other libraries by setting an example in systems of organization and services, and in setting standards for library holdings; to organize, at a national level, courses for library employees engaged in technical duties in order to set standards for the regions, so that qualifications are of equal value throughout Indonesia;
- to take the initiative in co-operating with overseas institutes in such things as exchange of publications, micro-filming and microfiche projects, ordering of overseas journals and equipment, etc.

Concerning the issue of foreign acquisition offices (Library of Congress, National Library of Australia, Royal Institute of Linguistics and Anthropology (Leiden), it should be mentioned that there is need to control their activities so that they do not act to the detriment of Indonesia. It is absolutely necessary to have rules and regulations to govern the activities of such offices. The duty of drawing up such rules and regulations and their control could be carried out by the National Library.

As the scope of its activities would necessarily be on a national scale, the National Library of Indonesia must have national status. So that its nature and scope of work may attain full development, it should be a non-departmental institute.

The three libraries (*Perpustakaan Museum Pusat, Perpustakaan Sejarah Politik dan Sosial* and *Kantor Bibliografi Nasional*), which I have suggested could be combined to provide the nucleus for a National Library, are all currently under the administrative control of the Department of Education and Culture, which fact should operate to reduce the problems associated with the process of their unification.

CHRONICLE

NOVEMBER 1974

INTERNAL AFFAIRS

On November 2, representatives of 5 major university student organizations, namely PMKRI, GMNI, HMI, PMII and GMKI, met with the leadership of the Parliament (DPR) to convey their opinions about the type of leadership and guidance appropriate for the younger generation. On November 3, a Congress of the Indonesian National Youth Congress (KNPI) announced the formation of a new Central Organizing Board and Central Guidance Board.

On November 5, the Economic Stabilization Council met to consider increases in the price of sugar.

Heroes Day was celebrated in Jakarta on November 10. A Heroe's Monument was unveiled and, on the 11th, the President presented posthumous Heroe's Medals to the late Dr. Abdulrachman Saleh, the late Augustinus Adisutjipto, and the late Teuku Njak Arif.

On November 11, a Bill for a Law on Irrigation was introduced in the DPR.

The Political and Security Stabilization Council met on November 12 and considered problems concerning Indonesian fishermen. On the same day, the President received the Chairman and Vice Chairman of the DPR and discussed preparations for the forthcoming ASEAN parliamentary conference.

The discoverers of a new variety of ground nut received an award from the President on November 19.

President Soeharto received a delegation of KNPI leaders on November 28. During his address to the delegation, the President urged them to select KNPI projects carefully, bearing in mind the need to increase popular participation in develop-

ment. The President also took the opportunity to explain aspects of the BUUD program to the delegation.

Issues relating to education and schools received a lot of attention during the second half of November, the period during which schoolchildren must register for the next academic year. Two major areas of concern to parents and teachers alike were school zoning and "non-compulsory" entrance fees (SPP).

On November 30, the President received a delegation of Islamic leaders following the conclusion of an Islamic "work shop" session in Jakarta. The President took the opportunity to stress the need to establish an inter-religious forum at the national level to bring together the various religious organizations, such as the Indonesian Council of Churches (DGI), the Council of Catholic Church Elders (MAWI), and the Joint Secretariat of Faiths. In order to provide organizational representation for the Islamic religion at the national level, declared the President, a Council of Islamic Leaders is required.

INTERNATIONAL RELATIONS

On November 2, the Vice President received the members of a Southeast Asian and Japanese youth contingent who are touring Asia on the ship "Nippon Maru". The contingent arrived in Jakarta on November 2, and were received by Mrs. Tien Soeharto and officials of various government departments.

Foreign Minister Adam Malik received a Soviet Parliamentary Delegation on November 4.

President Soeharto officially opened the "9th Asian Advertising Congress" in Jakarta on November 5.

The Foreign Minister of Papua New Guinea, Mr. Albert Maori Kiki, arrived in Jakarta on November 5.

The Vice President attended the opening of the Fourth ASEAN Film Festival in Jakarta on 12th November.

On November 15, a Rumanian Parliamentary Delegation arrived in Jakarta for a 5-day visit.

DECEMBER 1974

INTERNAL AFFAIRS

On December 2, Foreign Minister Adam Malik presented a statement on the proposed Extradition Treaty with Malaysia to the Parliament (DPR). On the same day, the Minister for Mining, Dr. Ir. Moh. Sadli, presented a statement concerning the enlargement of the Board of Directors of Pertamina.

On December 2, Major General Supardjo Rustam was nominated as Acting Provincial Governor for Central Java.

The 14th plenary meeting of the Press Council was opened by Minister of Information Mashuri.

A seminar on 'Religion and Social Change' was held in Yogyakarta.

The chief of the Intelligence Coordinating Board (BAKIN), Lt. General Yoga Sugama, confirmed that several persons, including Dr. Sudjatmoko and Mochtar Lubis, have been requested not to leave the country for the time being.

On December 4, President Soeharto opened a national seminar on 'Labor Relations based on Pancasila'.

The Minister of Education and Culture installed 4 senior officials of the Department of Education and Culture, respectively: Prof. M. Makagiansar, Prof. Santosa S. Hamodjoyo, Dr. W.P. Napitupulu and Dr. Setijadi.

A plenary cabinet session led by the President on December 10, decided to raise the salaries of civil servants, members of the armed forces, and pensioners; the lowest salary will be Rp. 10.000. Research policies were also discussed by the cabinet.

On December 11, Syachrir was brought before the Central Jakarta Court, on charges of subversion in connection with the "15 January Affair".

On December 15, President Soeharto left for Central Java. In Ambarawa the President acted as inspector of ceremonies to install a monument commemorating the four days of fighting in Ambarawa in December 1945. Meanwhile on December 16 the President commissioned 911 new officers from the Armed Forces Academy.

On December 18 the first national seminar on oceanology was held in Jakarta.

On December 19, President Soeharto attended the 25th anniversary of Gajah Mada University in Yogyakarta. In his address the President stressed the importance of science for development. He also stressed the urgent need for studies on Pancasila.

JANUARY 1975

INTERNAL AFFAIRS

1884 scholarships will be provided in 1975 for students, vocational school pupils and university lecturers in Java alone. These scholarships will be channelled through the universities.

Major General Leo Lopulisa was appointed Commander of the Army Strategic Command (KOSTRAD) to replace Major General Himawan Soetanto, who is to become the Commander of the Siliwangi Division.

On January 6, President Soeharto addressed a plenary session of Parliament (DPR), and submitted the 1975 - 1976 proposed state budget, which amounts to Rp. 2.7 trillion, or 73% more than the 1974 - 1975 budget.

On January 11, President Soeharto held a meeting with Professor Widjojo Nitisastro, Dr. Emil Salim and Dr. Sumarlin, to discuss plans for developing the national communication

system, particularly in connection with the launching of a domestic communication satellite in 1976.

The draft law on political parties and the functional group was submitted to Parliament by Minister for Justice, Prof. Mochtar Kusumaatmadja, on January 13. On January 16, Major General Aang Kunaefi was appointed Governor of West Java.

An intercity conference was opened in Surabaya by the Minister of Home Affairs on January 20.

On January 23, the Muhammadiyah Congress held at Padang was closed. The Congress elected H.A. Razah Fachrudin to be chairman of Muhammadiyah for 1975 - 1977.

On January 28, at a plenary session of the cabinet, Lt. General Yoga Sugama presented his assessment of conditions for the period 1975 - 1976.

Lt. General Widodo officially opened "Santi Siaga II", a combined armed forces exercise.

Commission X of the Parliament (DPR) held a public hearing with Professor Baiquni, the Director General of the National Atomic Energy Agency.

INTERNATIONAL RELATIONS

Secretary General of the Conference of International Islam, Hasan El Tohamy, arrived in Jakarta, on January 5, after his visit to the Philippines.

On January 6, the Japanese tanker 'Showa Maru' ran aground in the Straits of Malacca in Indonesian territory.

Foreign Minister Adam Malik left for Manila on January 7 to open the new Indonesian embassy.

On January 8, President Soeharto received members of an ASEAN parliamentary delegation. The delegation will hold an ASEAN Parliamentary Conference in Jakarta.

On January 21, Foreign Minister Adam Malik left Jakarta to lead the Indonesian delegation to the OPEC special meeting in Algeria.

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